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1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

No. 1-16

THURSDAY, APRIL 21, 1966

NOV, 8

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. S. Ron Basford, M.P.

WITNESS:

Mr. Dan McCormack, Vice-President and General Manager, Carling Acceptance Ltd.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

24047—1

THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. S. Ron Basford, M.P.

The Honourable Senators

Croll	Hollett	Thorvaldson
Davey	Irvine	Urquhart
Deschatelets	McGrand	Vaillancourt
Gershaw	Smith (*Queens-Shelburne*)	
Hastings		

Messrs.

Allmand	Deachman	McCutcheon
Andras	Duquet	Nasserden
Basford	Irvine	Olson
Bell (*Saint John-Albert*)	Lachance	Otto
Cashin	Lefebvre	Ryan
Clancy	Macdonald (*Rosedale*)	Saltsman
Coates	Mandziuk	Scott
Crossman	Matte	Vincent

(Quorum 7)

ORDERS OF REFERENCE

Extracts from the Votes and Proceedings of the House of Commons:

March 15, 1966:—

Mr. Hellyer for Mr. Sharp, seconded by Mr. Pennell, moved,—that a joint committee of the Senate and House of Commons be appointed to enquire into and report upon the problems of consumer credit, more particularly but not so as to restrict the generality of the foregoing to enquire into and report upon the operation of Canadian legislation in relation thereto;

That twenty-four members of the House of Commons to be designated by the House at a later date, be members of the joint committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto;

That the said committee have power to call for persons, papers and records and examine witnesses; to sit while the House is sitting, and to report from time to time and to print such papers and evidence from day to day as may be deemed advisable, and that Standing Order 66 be suspended in relation thereto; and to engage the services of councel, accountants and such other clerical and technical personnel as may be deemed necessary, that the Minutes of Proceedings of and evidence given before the joint committee during the Twenty-Sixth Parliament be referred to the said committee and be made part of the records thereof; and that a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some if its Members to act on the proposed joint committee.

And debate arising thereon, by unanimous consent, the said motion was amended to read as follows:

That a joint committee of the Senate and House of Commons be appointed to enquire into and report the problems of consumer credit, more particularly but not so as to restrict the generality of the foregoing to enquire into and report upon the operation of Canadian legislation in relation thereto;

That twenty-four members of the House of Commons to be designated by the House at a later date, be members of the joint committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto;

That the said committee have power to call for persons, papers and records and examine witnesses; to report from time to time and to print such papers and evidence from day to day as may be deemed advisable, and that Standing Order 66 be suspended in relation thereto; and to engage the services of counsel, accountants, and such other clerical and technical personnel as may be deemed necessary, that the Minutes of Proceedings of and evidence given before the joint committee during the Twenty-Sixth Parliament be referred to the said committee and be made part of the records thereof; and that a message be sent to the Senate

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requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed joint committee.

And the question being put on the said motion, as amended, it was agreed to.

March 18, 1966:—

By unanimous consent, on motion of Mr. Stewart, seconded by Mr. Ryan, it was ordered,—That the subject-matter of the following bills be referred to the Joint Committee on Consumer Credit:

Bill C-4, An Act to provide for the Control of Consumer Credit.

Bill C-21, An Act to amend the Weights and Measures Act (Truth in Packaging).

Bill C-24, An Act to amend the Small Loans Act (Advertising).

Bill C-29, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-39, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-53, An Act to amend the Small Loans Act.

Bill C-65, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-76, An Act to amend the Small Loans Act.

Bill C-91, An Act to amend the Small Businesses Loans Act.

Bill C-92, An Act to amend the Interest Act.

March 22, 1966:—

On motion of Mr. Pilon seconded by Mr. McNulty, it was ordered,—That a Message be sent to the Senate to acquaint Their Honours that this House will unite with them in the formation of a Joint Committee of both Houses to enquire into and to report upon the problems of consumer credit, and that the Members to serve on the said Committee, on the part of this House, will be as follows: Messrs. Allmand, Andras, Basford, Bell (*Saint John-Albert*), Cashin, Clancy, Coates, Crossman, Deachman, Duquet, Hales, Lachance, Lefebvre, Macdonald (*Rosedale*), Mandziuk, Matte, McCutcheon, Nasserden, Olson, Otto, Ryan, Saltsman, Scott and Vincent.

April 4, 1966:—

On Motion of Mr. Pilon, seconded by Mr. McNulty, it was ordered,—That the name of Mr. Irvine be substituted for Mr. Hales on the Joint Committee on Consumer Credit, and that a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate:

March 23, 1966:—

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Croll:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the said committee have power to call for persons, papers and records and examine witnesses; to report from time to time and to print such papers and evidence from day to day as may be deemed advisable, and to engage the services of counsel, accountants and such other clerical and technical personnel as may be deemed necessary, and to sit during sittings and adjournments of the Senate;

That the Minutes of Proceedings and Evidence given before the Joint Committee during the Twenty-sixth Parliament be referred to the said Committee and be made part of the records thereof; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

March 29, 1966:—

The Honourable Senator Beaubien (*Provencher*) moved, seconded by the Honourable Senator Macdonald (*Cape Breton*):

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto, namely, the Honourable Senators Croll, Davey, Deschatelets, Gershaw, Hastings, Hollett, Irvine, McGrand, Smith (*Queens-Shelburne*), Thorvaldson, Urquhart, and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MACNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, April 21, 1966.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10:00 a.m.

Present: For the Senate: The Honourable Senator Croll. *For the House of Commons:* Messrs. Basford, Clancy, Crossman, Duquet, Irvine, Lefebvre, Macdonald (*Rosedale*), McCutcheon, Nasserden, Otto, Ryan and Saltsman.

Present: Mr. John J. Urie, Q.C., Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

Mr. Dan McCormack, Vice-President and General Manager, Carling Acceptance Ltd., Ottawa, was heard.

At 11.45 a.m. the Committee adjourned to the call of the Joint Chairman.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Thursday, April 21, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10 a.m.

Senator David A. Croll, *Co-Chairman,* in the Chair.

CO-CHAIRMAN (*Senator Croll*): We have a quorum and I will call the meeting to order. My co-chairman, Ron Basford, is at the Broadcasting Committee meeting which was called on short notice, but he will be here soon.

Let me first put on the record the terms of reference. It was resolved:

> That a Joint Committee of the Senate and House of Commons be appointed to enquire into and report upon the problems of consumer credit, more particularly but not so as to restrict the generality of the foregoing to enquire into and report upon the operation of Canadian legislation in relation thereto;
>
> That twenty-four members of the House of Commons to be designated by the house at a later date, be members of the joint committee, and that Standing Order 67 (1) of the House of Commons be suspended in relation thereto;
>
> That the said committee have power to call for persons, papers and records and examine witnesses; to report from time to time and to print such papers and evidence from day to day as may be deemed advisable, and that Standing Order 66 be suspended in relation thereto; and to engage the services of counsel, accountants and such other clerical and technical personnel as may be deemed necessary, that the minutes of proceedings of and evidence given before the joint committee during the Twenty-sixth Parliament be referred to the said committee and be made part of the records thereof;
>
> Ordered: That a message be sent to the Senate requesting that house to unite with this house for the above purpose, and to select, if the Senate deems it advisable, some of its members to act on the proposed joint committee.

There was referred to the Committee the following bills:

> Bill C-29, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).
>
> Bill C-39, An Act to amend the Bills of Exchange Act (Instalment Purchases).
>
> Bill C-53, An Act to amend the Small Loans Act.
>
> Bill C-65, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).
>
> Bill C-76, An Act to amend the Small Loans Act.
>
> Bill C-91, An Act to amend the Small Businesses Loans Act.

Bill C-92, An Act to amend the Interest Act.

Bill C-21, An Act to amend the Weights and Measures Act (Truth in Packaging).

Bill C-24, An Act to amend the Small Loans Act (Advertising).

Bill C-4, An Act to provide for the Control of Consumer Credit.

Bill S-3, An Act to make Provision for the Disclosure of Information in respect of Finance Charges.

Co-Chairman (*Senator Croll*): Copies of the bills referred to the committee have been provided to all new members of the committee. You have also been provided with a list of the witnesses who have already appeared before the committee.

We have here this morning Mr. Dan McCormack, Vice-President and General Manager of Carling Acceptance Limited, Ottawa, who will tell us something about captive sales agencies and captive sales financing. This should be of interest to the committee. We have had evidence on all other aspects of this subject but this particular aspect has not yet been touched on, and since Mr. McCormack is available this morning we are taking advantage of that. Mr. McCormack does not have a brief. You can, however, question him when his evidence is complete.

Mr. Urie: I think, Mr. Chairman, that while Mr. McCormack has no formal brief he has prepared some notes for his own use and he has given me a copy.

Mr. McCormack, to form the basis of subsequent questioning perhaps you might review your notes since I think they adequately set forth the problem with which the committee is faced, and give us examples of the situation in the captive sales finance industry.

Mr. Dan McCormack, Vice-President and General Manager, Carling Acceptance Limited, Ottawa: I think my name was suggested to this committee because while what I am doing now has no reference to captive sales finance companies and therefore I have no axe to grind, nevertheless I have had many years experience with one of the largest independent sales finance companies in Canada. It was felt therefore that I might be able to give some information to the committee on this matter.

I understand this committee was to have sat sometime last summer and the notes I have now were prepared for that occasion. In the circumstances there may be some slight changes, but if there are they will not be extensive.

At that time, a year ago, there were 150 independent sales finance companies operating in Canada. The oldest company was founded in 1920 and five of the leading companies of the group, known as the Big Five, operate in excess of 600 branch outlets from coast to coast. If you added those operated by the remaining 145 companies you would get a total of approximately 1,100 or 1,200 branch outlets in all so that there is an independent sales finance company office for every 20,000 people in Canada. Most of these independent sales finance companies provide both wholesale and retail financing services to dealers. These services offered by the major companies are pretty well competitive with those offered by captive sales agencies.

In Canada at that time there were manufacturer-owned finance companies operating in the motor vehicle, trailer, farm equipment, domestic appliance, property improvement and industrial equipment fields. Also certain oil and gas companies and some public utilities which sell home heating apparatus operate captive sales finance companies.

Most of these captive companies are U.S. owned. They may be owned by a U.S. finance company which is a subsidiary of a U.S. manufacturer or they may

be owned by the manufacturer in Canada which is, in turn, a subsidiary of a U.S. manufacturer. A number of U.S. owned companies operating in Canada do not have a single office in Canada, yet finance credit sales through dealers here.

As mentioned previously, these manufacturer-owned companies finance many types of goods. However, at present, the largest field seems to be motor vehicles. The two largest motor vehicle manufacturers in North America, General Motors and Ford, both operate captive sales finance companies in Canada as well as in the U.S. General Motors Acceptance has been operating here for many years and a year ago had 32 branches—and I do not believe that figure would have increased very much—which handle approximately 75 to 80 per cent of the total financing arising from the sale of new General Motors vehicles. General Motors vehicles represent approximately 50 per cent of the total vehicles sold in Canada, so the financing of G.M. vehicles represents a very large proportion of the total sales finance market in Canada. In other words, they probably finance 80 per cent of 50 or 40 per cent of the entire automobile field, the new car field. Ford Motor Credit Corporation, the sales finance company owned by the Ford Motor Company (U.S.), has only been operating in Canada for about four years and now has about 15 branches.

Going back to G.M.A.C., as stated above, this company operates about 32 branches in Canada, or about one branch for every 600,000 of population. By comparison, the two largest independent companies whose motor vehicle financing would be closest to the level obtained by G.M.A.C., operated in excess of 200 branches for the largest and over 100 for the next largest by the end of 1965. In terms of population served per branch there would be about 100,000 for one company and about 190,000 for the other.

In that services offered by major companies are in all respects competitive with those offered by captive companies, and since independent sales finance companies operate many more branches and employ many more people than captives, there must be some other factor or factors which would account for a captive having 75 or 80 per cent of the available financing of the parent manufacturer's product. The obvious answer is that a large body of retail dealers in Canada are restricted in their choice of financing facilities. This effect is brought about through the influence of the manufacturer—owners of these captive companies who strongly influence their dealers or actually deny their dealers the right to do business with the finance company of their choice. This influence may take the form of coercion—veiled or outright—persuasion, suggestion or outright dictation.

Apparently there has never been any formal or concerted attempt made by authorities in Canada to confirm the existence of this denial of economic freedom to dealers. Nor has there been any legislation to deter manufacturers from dictating the "choice" of finance company to their dealers. Because no formal inquiry has been made in Canada to determine the ways and means whereby manufacturer-finance company combinations deny freedom of choice to retail dealers it may be helpful briefly to look at the U.S. record.

In 1938 General Motors, Ford and Chrysler were indicted on a charge of conspiracy to restrain trade in automobiles by coercing dealers to finance car sales through their finance subsidiaries. Ford and Chrysler entered into consent decrees divesting themselves of their finance subsidiaries and the criminal cases against them were dismissed.

General Motors chose to litigate the criminal indictment, went to trial in 1939 and was convicted and fined.

In 1940 a civil suit was filed against General Motors by the U.S. Government, again alleging conspiracy to restrain commerce in automobiles by coercing dealers to use the services of its finance subsidiary. The case was finally settled in 1952 when General Motors entered into a consent decree in which the

company specifically agreed on a policy of non-coercion of dealers, and non-discrimination against independent finance companies and dealers utilizing the services of these companies.

Between 1959 and 1962 a number of hearings were held before U.S. Government committees concerned with anti-trust laws and several bills were introduced, the most recent of which was the Cellar Bill, introduced before the U.S. Congress. The Cellar Bill sought to prohibit all motor vehicles manufacturers from financing vehicles of their own manufacture. Congressman Cellar, speaking before the American Finance Conference in November 1960, had this to say:

> There are forces at work in our economy which, if left unchecked, must end by destroying the free enterprise system and annihilating the vital segment of the financial community...

Testifying before the U.S. Congress in June 1961, Assistant Attorney-General Loevinger stated some of the methods whereby manufacturers effected coercion and discrimination. Although these methods are not officially documented in Canada as they are in the U.S. they are known to exist.

What we feel reasonably sure they do is this:

> 1. make threats to cancel and actually cancel dealers' franchises for not giving their business to the manufacturers' finance subsidiary;
>
> 2. withhold delivery of product when it is in short supply to dealers using independent sales financing;
>
> 3. deliver excess product of the less popular type to non-cooperating dealers, in periods of over production;
>
> 4. arrange matters so that the finance company of the dealer's choice is precluded from the same convenient arrangements accorded the captive company;
>
> 5. make pointed exclusions from "inner circles" or other methods of ostracizing those dealers not fully "in the family"—intangibles but very effective "psychological warfare".

In the absence of any restraining influences whatsoever, is there any good reason to believe that these methods are not now being employed in Canada?

As more and more manufacturer-owned finance companies become established competition in the sales finance industry, generally, lessens. This leads to poorer service to dealers and their customers. And service is the stock in trade of the independent sales finance industry. Service in the hands of captive finance companies is not as important a factor. The interest of the manufacturer-owners of these companies is satisfactorily served by operating a minimum number of branches at minimum expense both in people and physical facilities employed, all aimed at a high level of instalment paper covering the sale of the manufacturer's product at a minimum of expense.

One manufacturer-owned finance company has a subsidiary operating in Canada with about 15 branches, where none of the 10 directors and 11 officers is a Canadian or is resident in Canada. Master accounting of dealer and customer records are kept in the U.S. parent's head office below the border. This company is seeking to control the financing of the manufacturer parent's dealers across Canada with a minimum of service and a maximum of profit and dividends to the U.S. parent.

As already noted, one of the largest captive companies operating in Canada today services an average population of 600,000 for each branch outlet. The figure for one of the largest independents is 100,000 of population per branch outlet. While these figures are impressive it is interesting to note that ten

years ago this same captive operated one branch for every 561,000 of population while the same independent operated one branch for every 194,000 people. The captive therefore has not matched population growth in new branches going from 561,000 to 600,000 per branch while the independent has more than matched population growth going from 194,000 down to 100,000 people per branch.

These figures illustrate the point that the captive finance company dealer has less of the service facilities than he could obtain in a competitive market place. Also, the dealer and his retail customers often find themselves doing business with a company that is many miles away. Some of the captive companies doing business in Canada do not have a single office in this country.

In summary, I think the existence of manufacturer-owned sales finance companies seriously affects the economic freedom of a large and growing segment of the Canadian business community and the public it serves. As the manufacturer-owners of these "captive" companies grow larger and economically more powerful, the influence of this growth and power will be diffused through their captive companies to affect more and more retail dealers and their individual customers.

The ability of manufacturer-owners of sales finance companies to wield undue influence in the market place is unique in that they not only produce the goods but control the process by which they are distributed. The trend in this state of affairs is toward an overwhelming concentration of economic power which could well disturb, permanently, the heretofore successful pattern of Canada's economic growth.

It should be noted again, too, that most captive finance companies operating in Canada are U.S. owned. In any appraisal of the situation it is important to consider the overall effect that this has on Canada's economy. Many millions of dollars are slipping through Canadian hands in the form of interest and dividends which could and should remain in this country, since more than sufficient Canadian capital and physical resources exist to serve the industry from which these dollars arise. For the protection of thousands of Canadian retail dealers and in the interest of the Canadian public and business community generally, some official measures appear most desirable at this time.

Gentlemen, I wrote that a year ago or I had that prepared a year ago, but I do not think too much has changed in it. That is about all that I have to say.

Co-Chairman Senator CROLL; Mr. Urie, will you start the questioning please?

Mr. URIE: I have only a few questions, Mr. Chairman.

Mr. McCormack, you gave four or five examples of coercion which were apparently found to exist in the United States, the first of which dealt with threats of cancellation, or actual cancellation. In your experience in your many years in the sales finance field, did you ever encounter cases of actual or threatened coercion?

Mr. MCCORMACK: Yes I have.

Mr. URIE: How many years' experience have you had in this business?

Mr. MCCORMACK: I was 25 years—

Mr. URIE: Twenty-five years before you—

Mr. MCCORMACK: Twenty-three years before I started on my own.

Mr. URIE: Which company were you with, by the way?

Mr. MCCORMACK: Industrial Acceptance Corporation.

Mr. URIE: And as such were you stationed wholly in Ottawa?

Mr. MCCORMACK: No, I was sales manager in Toronto.

Mr. URIE: So you have had vast experience with sales finance companies. During that time did you run into this cancellation or threat of cancellation of which you spoke in the United States?

Mr. MCCORMACK: Yes.

Mr. URIE: Can you give an example, or are there any examples that come to mind?

Mr. MCCORMACK: I think you gentlemen will understand that I do not wish to name any individual dealers because—

Co-CHAIRMAN Senator CROLL: That is quite all right.

Mr. MCCORMACK: —the franchises that they operate are generally very lucrative ones, and I do not think they would like the boat rocked in any way. But, I have run into it, yes.

Mr. URIE: Can you give us an example without using names?

Mr. MCCORMACK: Yes. As a regional sales manager I was responsible to the sales manager—we had a chain of command that was followed. I was responsible for the development of new business, and the retention of old business. There was a particularly good account that was being serviced by a captive sales finance company, and we were successful in persuading the dealer to leave them. This is on a competitive basis—our plan against their plan, and our service against their service. We were successful in persuading the dealer to leave the captive company and come with the company I represented.

He called me to his home city and told me in the afternoon that he was going to a sales meeting in the morning to distribute the new rate books, contract forms, and so on, and that effective henceforth they would be dealing with the company I represented. This meeting was held. We had representatives at the meeting, and we gave a speech, and so on.

By that time the captive sales finance company's manufacturer was aware of it. Within a day he was approached and asked to withhold his decision for a month until they could muster their guns and bring in the troops to see what they could do about it. He agreed to do this for them, and we considered it eminently fair because we were perfectly prepared. We felt we had a case. We were competitively better than the captive company.

The dealer took a heart attack in between. It was not too severe, but he was in the hospital. He told his son that he wished to make the change anyway. The son announced to the captive company that he was going to make the change. The captive company told him that there was no God-given right to the franchise; it did not necessarily pass from father to son; that if the father was incapable of operating the dealership then it must be resolved. They said they had no objection to the son's taking it over, but in his own interests, and to make it easier for him to get approval, it would be better for him to remain in the family.

I know that this is hearsay evidence, but this is what happened.

Mr. URIE: Do you have any other example? I think you told me before we started this hearing of an instance in which one of the captive companies, which also had an associated company in the business of capital loans to dealers, exercised some sort of pressure which would amount to the type of coercion of which you spoke a moment ago.

Mr. MCCORMACK: Well, some of the captive companies operate a further company that they call their capital loan company, by which they provide a majority of the working capital for a dealer. In other words, a dealer candidate may be desirable in all aspects except that he has not enough working capital to adequately finance the dealership, so a subsidiary of a manufacturer will provide that working capital. They do this by advancing the money in the form

of preferred stock which becomes the voting stock—as redeemable preferred stock which becomes the voting stock. As the dealer earns money the stock is redeemed. But, at the beginning the dealer is a minority shareholder.

I know of an example where a dealer asked in his application to deal with an independent company, and he was told that the board of directors had decided that it had better remain again in the family.

Mr. URIE: I see. Now, insofar as the customer himself is concerned as opposed to the dealer, are there situations in which the dealer refuses the customer permission to deal with an independent of his own choice?

Mr. McCORMACK: Well, the customer may specify that he would like to deal somewhere else, and the dealer will do the best he can to persuade him to deal with the captive company—again, having him remain in the family. There are occasions when dealers will absolutely refuse to sell an automobile if the financing is done somewhere else, but those are rare and it does not seem to me—

Mr. URIE: Rather than that direct type of pressure are there any indirect types of pressure that can be exerted on a customer to keep him in the family, as it were?

Mr. McCORMACK: There are various rates that they can use, Mr. Urie. I am not sure if I follow you.

Mr. URIE: I do not know the answer to this question. I am merely asking if there are ways by which they can exert pressure on the prospective customer by rates? How do these rates compare? We might go into that. Do the rates of the independents vary drastically?

Mr. McCORMACK: You realize that I have been away from this for a couple of years, but I am pretty sure that this is still true. Finance companies operate on what they call a retention basis with all their dealers. In other words, they may want a 6 per cent add-on rate, and they may supply the dealer with a various number of rate charts. The spread between what is actually charged and what the finance companies retain, the dealer keeps as what he calls a loss reserve—a reserve to provide against repossessions and ultimate losses on the paper that he sells. The dealer can use any rate he wishes as long as it is the minimum. He can operate with no reserve if he wants to. Now, they can do that.

I think I see what you are getting at. The dealer particularly would like to keep the account in the family—this would apply to independent companies as well as captive companies—he would like to keep it in the family as much as possible because when he gets in a certain amount of dollars of paper financed then there is a volume bonus, and so on.

Mr. URIE: But that applies to both?

Mr. McCORMACK: I would say that that would apply to both.

Mr. URIE: That is what I want to know. Now, I have just one or two more questions, after which I assume the members of the committee will have some to put to you. You mentioned that in the United States there has been, basically by consent, I presume, an agreement between the major manufacturers in the automobile industry and the Government that no coercion will be used. From you own personal knowledge has this, in fact, affected the volume of business that is done by the captive finance companies?

Mr. McCORMACK: In Canada?

Mr. URIE: In the United States?

Mr. McCORMACK: And in Canada?

Mr. URIE: Let us deal with the United States, and then we will come to the situation in Canada.

Mr. McCormack: My understanding is that the amount of a particular manufacturer's business in the United States where there are anti-trust or restraint of trade laws is less than half the penetration that it is in Canada where there are not such laws.

Mr. Urie: You said a minute ago that approximately 80 per cent of the new car financing done by General Motors dealers is done through G.M.A.C.?

Mr. McCormack: In my opinion.

Mr. Urie: That is as you understand it?

Mr. McCormack: Yes.

Mr. Urie: Would that figure be as high in the United States?

Mr. McCormack: It would be less than 50 per cent in the United States, as I understand it.

Mr. Urie: Was it at any time as high as 80 per cent, and did it decline as a result of the consent decrees that have been entered into, or do you know that?

Mr. McCormack: Probably, because when Ford and Chrysler went out of the finance business back in 1939, I think, they sold their companies. General Motors continued. They appealed it, and the appeal went on for so long—I think it was 13 years—that the consent decree to relax coercion, which is the phrase that the consent decree used—their penetration went down from somewhere around what the figure for Canada is to what it is now.

Mr. Saltsman: Mr. McCormack, I have a couple of questions. First of all, when you were with I.A.C. formerly, when you approached the dealer in order to get him to change from a captive arrangement to the proposition you were making to him, what sort of inducements did you offer him, or what sales pitch did you use in this regard to the dealer? In other words, why should he change from a captive to an independent?

Mr. McCormack: I think basically—and I mentioned it in the information I read—that, first of all, the rates were competitive, the charges to the dealer were competitive, the advantages to the user from a monetary point of view were competitive. The only thing I could offer was better service. Do you come from Galt?

Mr. Saltsman: Yes, that is right.

Mr. McCormack: I.A.C. handled the Pontiac dealer in Galt. The Chevrolet dealer in Galt was handled by the captive company in London. We felt that we were able to convince the Pontiac dealer—this company I was with had an office in Galt—that we could do a better job for the dealer in Galt than General Motors Acceptance Corporation could do for him in London. He agreed with us. I think it was service that sold him.

Mr. Saltsman: My experience in the buying of cars over many years, and some of them have been financed and some have not been financed, is that where you have a captive company you can walk in, and they can tell you right then if they will accept or not accept, because they know what the company's requirements are in this regard. There did not seem to be much service or time involved, and if the sale of the car was made they could tell you almost immediately, "Yes, you can have this" and there would be the writing up of the contract and that was the end of it.

Mr. McCormack: Are you speaking from a customer's point of view?

Mr. Saltsman: Yes, from a customer's point of view.

Mr. McCormack: I was talking more from the dealer's point of view; although I do feel that the fact that you are in Galt you can handle a person better, that he can walk into your office on the main street of Galt, and that you

can deal with a man better than on the main street of London. However, from the dealer's point of view I think you can do a better collection job, being in Galt rather than in London. You can do it a lot quicker, by reason of the fact that the dealer says he will sell you a car and there has been no question about that and there is no bearing on whether the finance company will buy the contract; the contract must be phoned or sent to London and the investigation must come from London, if there is to be an investigation. If there is any collection problem, somebody has to come out from London to do it. So from the dealer's point of view it is better done by the local company.

Mr. SALTSMAN: Can you give us some example of the rates that are charged by captive companies and those charged by companies like I.A.C.?

Mr. McCORMACK: I thought I explained that, that this was on a retention basis, that the dealer retains a certain amount, percentage, say 6 per cent flat. I am talking of a new car.

Mr. SALTSMAN: Can you tell us what it is in simple interest?

Mr. McCORMACK: Mr. Chairman, you are the expert on that. Six per cent flat is about 11½ per cent.

Mr. URIE: Seven per cent is 13½ per cent.

Mr. SALTSMAN: And the captive?

Mr. McCORMACK: I think about the same. General Motors or Ford may or may not include life insurance. The independent companies—

Mr. SALTSMAN: From the customer's point of view, is there not a possibility that under a circumstance where the dealer is doing business with an independent, the customer may be charged a higher rate of interest because he has certain discretionary powers there?

Mr. McCORMACK: He has with the captive company too.

Mr. SALTSMAN: With the captive company do they not indicate that the rate must be—

Mr. McCORMACK: Oh, there is a maximum rate to be charged, yes, but the good independent, the large independent, also has a maximum rate.

Mr. SALTSMAN: But in other circumstances dealing with an independent, a dealer who sells the car would have a considerable amount of discretion as to what interest rate he would charge?

Mr. McCORMACK: Would you repeat that please?

Mr. SALTSMAN: Dealing with an independent finance company, the dealer who was selling the car would have considerable discretion as to the rate he was going to charge the customer—greater than if he were bound to a captive finance company?

Mr. McCORMACK: Not with the larger independents.

Mr. SALTSMAN: But with the smaller, he would?

Mr. McCORMACK: Yes. Anything could happen; you could go to a loan company and borrow.

Mr. SALTSMAN: What company do you represent now?

Mr. McCORMACK: I am not in that business at all now.

Mr. SALTSMAN: When you were with I.A.C. did you stipulate to the dealers to whom you advanced credit that they had to charge a certain amount when they sold a car to a customer?

Mr. McCORMACK: No.

Mr. SALTSMAN: So they had discretion to charge whatever they pleased?

Mr. McCormack: Absolutely. The dealer could charge below the retention. He would pay it then. If it got competitive enough and he said, "I can't sell that car unless I charge only five per cent add on or flat," he may very well choose to sell it.

Mr. Saltsman: Did you receive any complaints from dealers tied in with competitive companies about this kind of an operation?

Mr. McCormack: About what?

Mr. Saltsman: Are the dealers themselves unhappy about being connected with captive companies? I am talking about the automobile dealers.

Mr. McCormack: Mr. Saltsman, I was a salesman. It is hard to rationalize, but we often would get a dealer part way to making the change from the competitive company to the company I did represent, and then the roof would fall in, and if you didn't have the opportunity again and couldn't find the reason, he would tell you that somebody from the factory—not from the finance company—advised him. This may be wrong. I don't know if it is so in Canada; it has not been shown.

Mr. Saltsman: Can you give us some indication of whether a difference in the interest rate exists between Canada and the United States in these fields.

Mr. McCormack: Is there a difference?

Mr. Saltsman: Is there a difference in the interest rates between that charged in Canada and that charged in the United States.

Mr. McCormack: Yes.

Mr. Saltsman: Is it lower or higher?

Mr. McCormack: It is lower in the United States; again, because their borrowing cost is lower.

Mr. Otto: Mr. McCormack, in your experience, and having the information you had from the manufacturers, do you think that the manufacturer paid a fairly substantial amount of attention to the profits made from the usury of money? In other words, there is investment in this acceptance corporation. Was this an important factor in the consolidated statement, say, of the manufacturer?

Mr. McCormack: I think I had better get into a specific case.

Mr. Otto: Let us take the case of General Motors, which manufactures cars and also makes money on financing.

Mr. McCormack: Right.

Mr. Otto: Is the money they make on financing an important factor in the profit statement of General Motors?

Mr. McCormack: The profit of General Motors Acceptance Corporation of Canada Limited in relation to the overall profit of General Motors for a year is very, very small. I think they made \$2 billion in the United States, while General Motors Acceptance Corporation of Canada made a net profit in Canada in excess of \$2 million, I believe. However, the total investment of General Motors Acceptance Corporation of Canada Limited to make that \$2 million was \$15 million, or so; so from an investment point of view it was well returned.

Mr. Otto: So it was an important factor. Now you have given your evidence that General Motors and other manufacturers of automobiles are doing the same thing with franchises; in other words, in effect they are making a fairly good amount of money by buying the franchises or owning them and selling them to the franchise dealers in shares, as you have said, over a long period of time, and that is a substantial profit.

Mr. McCormack: Generally, the operator who may go in with 25 per cent of his money and 75 per cent of the manufacturers money, all in preferred stock, redeems the stock at the appreciated price. So I would say that if a dealer gets himself out of the financing arrangement, he has clearly made some money.

Mr. Otto: Which he probably never will.

Mr. McCormack: Oh no they get out in a very short time.

Mr. Otto: I am going to take the part of the devil's advocate in this. Could not the manufacturer who forms this captive finance company say "It is better for a consumer, because we will merge the profits made from financing with the profits made from production and therefore be able to give him the article at a cheaper price"? In other words, General Motors can say, "We expect to make 5 per cent profit on our car manufacturing." Now suppose they were only able to make 3 per cent on manufacturing of cars and were able to make another 2 per cent on the financing, they could still sell a car for the same price and as far as the consumer is concerned could not General Motors and other captive manufacturers and finance companies not have a fairly good ground to stand on by saying that the consumer is getting a better deal?

Mr. McCormack: They could; I don't know whether they would or not. If they did decide they wanted to give back some of the profit they were making, there is nothing to stop them.

Mr. Otto: If a manufacturer had no connection with financing, the manufacturer would expect to make his profit from the manufacture, and another person would expect to make another profit from the financing. There are two profits involved there. This argument has been presented and may be presented again by the manufacturer saying "In this way we are combining the two profits so that in effect the consumer does not pay any interest at all."

Mr. McCormack: They could do that if they wanted to, but I cannot imagine them giving any money back.

Mr. Irvine: Mr. McCormack, since you are not now connected with any wealthy finance companies that leaves you more or less free. However, if I ask you any question that might be embarrassing I don't want you to answer it.

Mr. McCormack: I won't.

Mr. Irvine: I was in the finance business for a time in that I had my own finance company in connection with other businesses. I sold my papers through various institutions named here today. But now I want to go back a bit, perhaps four or five years. I understand there are great changes in the handling of papers in the past five years. I would like to ask this question: Is there a change recently or has there been a change in the attitude of manufacturers' companies with respect to franchises? Let us take one of the larger companies having its own financing for its own merchandise, is it your feeling that they say "Now you must use our company."

Mr. McCormack: Yes.

Mr. Irvine: Would you not think this is a departure from what is was 15 or 20 years ago?

Mr. McCormack: Well, 15 years ago—were you in the automobile business then?

Mr. Irvine: I had a chain of stores in the appliance business.

Mr. McCormack: I think I dealt with the situation, when I said that this applied not just to the automobile business, but more there than anywhere else. I don't think it changed there. I think it was always this way. There are places where the captive company is not particularly anxious to go in, for instance in some remote areas where an office may be a hundred miles from a branch office. They are perfectly willing then to have the independent company have that.

But where you have a metropolitan area such as Toronto where there are probably 30 General Motors dealers, I think 29 of them are dealing with General Motors Acceptance. That is where the profits are, and where the business is easy to handle. To answer your question as quickly as I can, I do not think there has been any change.

Mr. IRVINE: The reason I ask that question is that from 1945 to 1948 when I was dealing with one of the firms, and I imagine you know which one it was by the way in which you have spoken—it was General Motors Acceptance—because previous to that I had dealt with independent firms which were mentioned today—and General Motors Acceptance said "Why don't you deal with us?"

Mr. MCCORMACK: That is good salesmanship.

Mr. IRVINE: Perhaps. On the other hand there was no pressure, and eventually I changed over because the office was close to mine. Their rates were much the same. If conditions have not changed companies are still, I presume, in business in what we call dealer paper and in business they are extending to these dealers a four-plan service. At that time they used to extend a plan on the basis of one-half of one per cent per month. I am not sure on that point, but it does not make much difference. However the dealer must turn in a certain amount of money. Have they got away from the old system of what we used to call a reserve fund?

Mr. MCCORMACK: Yes, but the effect is the same.

Mr. IRVINE: There used to be a bargaining set-up; if you were a good bargainer you might get 15 per cent or more and if not you got 10 per cent. Under the new regulations is the majority of their paper recourse or non-recourse?

Mr. MCCORMACK: It is both, but there is a difference in the reserve.

Mr. IRVINE: There is a difference in the rate of interest?

Mr. MCCORMACK: No, it is the same rate.

Mr. IRVINE: Is it necessary to list on the sales agreement the actual amount in dollars and cents of interest being charged for the duration of a contract? I mention this because I know that you know how salesmen operate.

Mr. MCCORMACK: It should be. I was a manager of a sales finance company for years and I would not buy a contract if it came up without the interest rates quoted in dollars and cents. I would not buy it unless the contract was properly filled out. I would send it back.

CO-CHAIRMAN (*Senator Croll*): You are talking about carrying charges?

Mr. IRVINE: Yes.

Mr. MCCORMACK: I am sure it is done.

Mr. IRVINE: Most salesmen are real introverts—we will put it that way to be kind. They will fill out the contract and put in the amount of the deferred balance, but they forget to put in the interest amount and total it. I wonder if we have any safeguard on it. These are the real headaches for a dealer, if these things happen, and they are real headaches for the finance company. If it became necessary that every time a person made a retail sale a slip of paper had to be written out and signed by the customer to the effect that he understood the total carrying charges for this sale would amount to so much in dollars and cents, and the customer had to see this, do you think this would be a service?

Mr. MCCORMACK: I do. I think the idea is a good one, but as you know, some people will sign anything. They will sign blank cheques, blank contracts —they will sign anything. But in the overall it would be a service, yes.

Mr. IRVINE: Do you think it would have a detrimental effect on sales?

Mr. McCormack: No, I don't think that anything that would protect people would be detrimental to sales.

Mr. Irvine: There is another question I would like to ask. What is the effect now of the banks coming into the financing business for automobiles and appliances and household goods? What is the effect on the independent finance company?

Mr. McCormack: Well, for one thing it has reduced the rates somewhat. I think it has made the independent sales finance companies and the captive companies do that. This applies to both kinds. All sales finance companies have been forced to make the change.

Mr. Irvine: It has rendered a service to the general public in the sense that it has brought down the interest rates somewhat?

Mr. McCormack: I believe so.

Mr. Irvine: One other question with respect to the personnel of the independent companies. From what you have said I gather that these independent companies are Canadian-owned?

Mr. McCormack: Yes.

Mr. Irvine: Would you say all or just most?

Mr. McCormack: Well, not all, but most. There were 150 I mentioned, five national and 145 others. I would say about 140 of the others and three of the five are Canadian-owned, wholly Canadian-owned. Two of the independent companies are subsidiaries of American companies.

Mr. Irvine: Most of them are Canadian-owned, and they would have Canadian executive staff in general?

Mr. McCormack: And their dividends are paid in Canada.

Mr. Irvine: Their profits would remain in Canada?

Mr. McCormack: Yes, sir.

Mr. McCutcheon: Mr. McCormack, I regret that I was late, but I was tied up this morning for a few minutes. I hesitate to have repetition on this, but do I take it that G.M.A.C. and the Ford Motor Company have their own captive finance companies?

Mr. McCormack: Yes.

Mr. McCutcheon: What about the Chrysler Corporation?

Mr. McCormack: They have in the United States, but not in Canada.

Mr. McCutcheon: Mr. Otto touched on something that I just wonder if we might explore a little further. I am conscious of these great ads in our metropolitan papers and these family companies, shall we say—and I am speaking now about automobiles primarily—these large family companies which you referred to—and we get the inference. They offer so-called discount prices in their advertising in the papers, much lower than smaller independent dealerships do. I am wondering this, sir. Is the fact that some of these extremely large dealerships are selling these cars at cut-rate prices and making their money by writing the paper?

Mr. McCormack: Are you talking about—

Mr. McCutcheon: I am talking about a dealership.

Mr. McCormack: Are you talking about a legitimate new car dealership?

Mr. McCutcheon: Right.

Mr. McCormack: I do not believe so; no, I do not believe a good dealership using a good finance company, be it captive or independent, can earn enough through financing money to warrant discounting the price of the automobile. I

do not think that is done. I do not think a good independent or good competitive sales company would permit that. I did say there were maximums that a good company would not exceed.

Mr. McCutcheon: Fine.

Mr. McCormack: These are only opinions, of course.

Mr. McCutcheon: May I ask you one more question? Let us suppose that an automobile is sold to a customer. I suppose the average price of an automobile is now $3,500. In the old days, when I was at it, they were $1,500. How much commission is there in that for the dealer for writing that paper?

Mr. McCormack: A new car?

Mr. McCutcheon: Yes.

Mr. McCormack: I have to approximate, a little—

Mr. McCutcheon: Well, of course.

Mr. McCormack: Let us say the finance company wants a 6 per cent add-on, and the dealer charges a 7 per cent add-on; and in a competitive market like the city of Toronto, for example, that is about all he can get. I would say there is slightly better than 1 per cent of the financed portion for the dealer. In other words if they finance $2,500, the dealer gets a little over $25.

Mr. McCutcheon: Twenty-five dollars.

Mr. McCormack: About that. This is new cars.

Mr. McCutcheon: Yes. I would like to know if you could give us an approximation, supposing it is a $2,000 used car.

Mr. McCormack: Well, as I said, I have been away from this a couple of years, but it used to be 1 per cent extra on used cars. It used to be 8 per cent on a late model used car.

Mr. McCutcheon: In other words, our poor chap working at a punch press, or something like that, has to pay $40 for the commission on that deal to the dealer?

Mr. McCormack: Yes.

Mr. McCutcheon: Whereas it is $25 for the fellow who can afford to buy a new car.

Mr. McCormack: But the risk is greater in the used car; that is their basis for doing that. In other words, if you sold a life insurance policy to a fellow who was sick you would charge more than to one who was well.

Mr. McCutcheon: They would not even give it to you.

Mr. McCormack: Well, if he was only a little sick.

Mr. McCutcheon: In your opinion, in the case of the captive companies and the factories who force large inventories on the hands of dealers, does that have the effect of increasing the price to the ultimate consumer, because of finance charges on these cars sitting on a vacant lot for months and months and months? I am told it will run about a dollar a day for a dealer for a new car sitting on his lot.

Mr. McCormack: He is lucky if he gets away with that. It is hard to say. It has an effect on the dealer's profit, and I think it is up to the dealer whether he tries to recover or gets into a position where he has to say, "I have to sell it or else I am in real trouble".

Mr. McCutcheon: But is there any coercion that he takes those cars?

Mr. McCormack: Mr. McCutcheon, in all fairness, I do not think we are on the subject I am here to discuss.

Mr. McCutcheon: I grant you that, but I still think this is relevant to what this committee is after.

Mr. McCormack: Is there coercion from a factory for a dealer to take automobiles? Well, I am sure the factory does not want them sitting there on their premises. If, say, Ford says, "We should have 15 per cent of the market, and we have only 14 per cent," then, sure, there is coercion.

Mr. McCutcheon: Is the basic cause of all of this the failure of our banks properly to finance industry in this country?

Mr. McCormack: Oh, I could not give you an opinion; I just couldn't. Banks are great friends of mine.

Mr. McCutcheon: You mentioned that in the U.S.A. prices were cheaper and the bank interest rates over there are cheaper.

Mr. McCormack: Yes, but Government Treasury bills are cheaper too. Would you criticize the American Government because they are cheaper, or the Canadian Government because they are more?

Mr. McCutcheon: Thank you very much!

Co-Chairman (*Senator Croll*): There are no rules about criticizing the Canadian Government; everybody does.

Mr. Irvine: They have a greater volume there too.

Mr. McCormack: Yes.

Co-Chairman (*Senator Croll*): It has been indicated that in the evidence given in the United States in similar hearings in the year 1956, car dealers in the United States made more money on financing papers than they made on selling cars.

Mr. McCormack: In the United States?

Co-Chairman (*Senator Croll*): Yes, that was in the United States. Does that make any sense?

Mr. McCormack: Well, I can remember a dealer would say, "This is what I made from my financing, and this was the net profit," and what he earned on financing was more than his net profit on the sale. If it is suggested that the dealer should not get any of the finance charge and it has to go on the price of the car I do not think anything is being saved.

Mr. Nasserden: Is there any volume bonus?

Mr. McCormack: Yes.

Mr. Nasserden: On writing papers?

Mr. McCormack: Yes.

Co-Chairman (*Senator Croll*): Is there any, what?

Mr. Nasserden: Volume bonus on writing papers?

Mr. McCormack: Yes.

Co-Chairman (*Senator Croll*): What is it?

Mr. McCormack: As the dealer gives a finance company a volume of unpaid balances or the fact values of the notes, there is a percentage given to the dealer. It varies: it goes up as high as 2 per cent in very large volumes; but there has been very little at that rate. But the finance company pays it, not the customer.

Mr. Nasserden: What is "large volume"?

Mr. McCormack: $1 million.

Mr. McCutcheon: In connection with this, what about these dealers writing insurance, liability, etcetera? How much money do they make out of that?

Mr. McCormack: In Ontario they are not allowed to make any. I do not know whether they do anywhere else. In Ontario it is against the Insurance Act.

Mr. LEFEBVRE: Mr. Chairman, some of these questions have been answered, but I want to touch on a few things here. Mr. McCormack, you said there are 32 branches of G.M.A.C. throughout Canada, and they could not give the proper service to their customers. But would the average dealer not act as sub-agent to these regional branches, as you might call them, so the customer would get some type of service through the dealer?

Mr. McCORMACK: If I were a dealer I would not want to do it. Not many dealers operate their own finance companies; a few do, but most do not because they feel they would get them mixed up, sales involved with credit. If I were a dealer I would not want to be doing the finance company's work.

Mr. LEFEBVRE: Some of these large volume dealers have finance company representatives right on their premises, is that not correct?

Mr. McCORMACK: Yes.

Mr. LEFEBVRE: Some of these are representatives of captive companies and also of independent companies?

Mr. McCORMACK: Yes, sir.

Mr. LEFEBVRE: Would there be any large volume dealers that would have representatives from the two companies at the same time on their premises?

Mr. McCORMACK: I do not know of any. I have never heard of it.

Mr. LEFEBVRE: There is no doubt about the large volume dealers getting more kick-back than the small dealers, and this would never go above 2 per cent?

Mr. McCORMACK: It might, but I have never seen it.

Mr. LEFEBVRE: And what would you say would be the difference as between the captive sales finance companies and the independent finance companies? Would the difference be in the service?

Mr. McCORMACK: Among the larger independent finance companies I would say that service is the difference. This is a service business.

Mr. LEFEBVRE: If a customer is an excellent risk and would be an acceptable risk by a bank, a finance company or a captive sales finance company, roughly what would be the difference in interst charges between the three if he had a choice of taking any one of them?

Mr. McCORMACK: One man can go to the bank and borrow money at the rate of 6 per cent simple interest. Another man can go to the bank and borrow on one of the plans the banks have and pay from 10 to 11 per cent interest. He could get the same thing at the finance company at an interest rate of from 12 to 13 per cent. These are approximate figures.

Mr. LEFEBVRE: If he has collateral at the bank he can get it for a flat 6 per cent?

Mr. McCORMACK: Yes, if his note is good.

Mr. LEFEBVRE: And if he has not the collateral he would end up paying 10 or 11 per cent at the bank, and 13 per cent at any of these large finance companies?

Mr. McCORMACK: Yes.

CO-CHAIRMAN (*Senator Croll*): In addition to the interest rate would there be a difference in the carrying charges as between the banks and—

Mr. McCORMACK: No, I am including everything. Then there is life insurance to consider. There are little things that go with it. If you go to the bank and borrow the money at 6 per cent you do not get life insurance.

Mr. URIE: I have just one or two questions arising out of the answers to the questions put by members of the committee. In reply to a question from Mr.

Otto you referred to an investment by G.M.A.C. in its business in Canada of approximately $15 million, and a net profit of about $2 million. When was that?

Mr. McCormack: The last time I read the General Motors report.

Mr. Urie: Last year?

Mr. McCormack: No, I think it would be 1964.

Mr. Urie: It does not really matter—

Mr. McCormack: It was in the 1964 report.

Mr. Urie: Comparatively what was I.A.C.'s investment in Canada in the same year?

Mr. McCormack: Off the top of my head, I believe they had capital and retained earnings and surplus in excess of $115 million.

Mr. Urie: And what about the net profit on that investment? Have you any idea of what it was?

Mr. McCormack: After paying taxes I think they made $12 million.

Mr. Urie: That is on an investment of something over $100 million?

Mr. McCormack: It was $120 million, yes. But, they also do not have the leverage. I think that is what we are getting at.

Mr. Urie: Yes.

Mr. McCormack: They do not have the leverage that General Motors and Ford have.

Mr. Urie: Would you explain what you mean by "leverage"?

Mr. McCormack: When they borrow money the investing public or the investors look at their capital and surplus, but General Motors guarantees the notes of General Motors Acceptance Corporation, and there is not much doubt about their credit worthiness.

Mr. Urie: I see. They do not have to go to the public for their money?

Mr. McCormack: They do, but they get it cheaper. General Motors Acceptance Corporation goes to the public all the time, but when you read its prospectus you will see that its debentures or its short term notes or bonds are fully guaranteed by General Motors.

Mr. Urie: So they get their money cheaper, and that is an advantage to them over the independents?

Mr. McCormack: Yes.

Mr. Urie: Now, in response to a question from Mr. Irvine you gave the approximate numbers of wholly-owned Canadian companies, and subsidiary companies of United States concerns. Have you any idea off the top of your head of what percentage of business is done by the wholly-owned Canadian companies as opposed to those which are American subsidiaries?

Mr. McCormack: Oh, it would be perhaps 90 per cent.

Co-Chairman (*Senator Croll*): Ninety per cent by whom?

Mr. McCormack: By the Canadian owned companies. We are not talking about the captive companies now; we are talking about the independent companies?

Mr. Urie: That is right.

Mr. McCormack: I think it would be 90 per cent.

Mr. Lefebvre: Ninety per cent of the 150 would be wholly Canadian owned?

Mr. McCormack: Ninety per cent of the business done by the independents is done by Canadian companies.

Mr. IRVINE: We had this figure once before, but what approximately is the total volume of business done by all types of companies throughout Canada?

Mr. McCORMACK: I do not know.

Mr. IRVINE: We had that figure once. Do you remember what it was, Senator?

Mr. URIE: Yes, it is in the evidence somewhere, but I have forgotten what it was.

How many captive sales finance companies, if any, are wholly owned in Canada?

Mr. McCORMACK: I have a list here, but I do not believe any of them are—Massey-Ferguson have a captive company which I presume would be Canadian.

Co-CHAIRMAN (*Senator Croll*): You have a partial list of what you call captive sales finance companies?

Mr. McCORMACK: Yes, a partial list.

Co-CHAIRMAN (*Senator Croll*): Do you mind reading it?

Mr. McCORMACK: No.

Mr. URIE: This is all companies—I think this is more fairly stated to be a list of all companies which have themselves captive sales finance companies?

Co-CHAIRMAN (*Senator Croll*): Is that right?

Mr. McCORMACK: Yes. Well, B.A. Oil may be a Canadian company. Beaver Lumber is a Canadian company, and then there are Caterpillar, Ford Motor, Frigidaire, Freuhauf, General Motors Acceptance, Home Development Acceptance, Imperial Oil—which again may be Canadian—International Harvester, Case, John Deere, Mack Truck, Massey-Ferguson, Petrofina, Redisco, Texaco and Yellow Motors Acceptance, which is an operation of General Motors to finance buses. But, the big ones that we are talking about are those concerned with automobiles and freight trailer companies, and so on. If you want the percentage of the captive companies then I would say three-quarters of the financing done by them is done by American owned companies.

Mr. URIE: In percentage of volume done by those would you say it is 90 per cent or 75 per cent?

Mr. McCORMACK: About the same. It is pretty hard to tell, Mr. Urie. I think I could say that in excess of 75 per cent of the dollar volume done by the captive sale finance companies is done by those which are American owned. Is that what you want?

Mr. URIE: Yes.

Co-CHAIRMAN (*Senator Croll*): Just to recall the figure, of the total amount done in Canada how much is done by the captives?

Mr. McCORMACK: Well, we did not know how much the total was, did we?

Co-CHAIRMAN (*Senator Croll*): I asked you if you had some idea. You do not know the total?

Mr. McCORMACK: Do you mean, Senator Croll, that of all the financing done in Canada how much is done by the captive companies?

Co-CHAIRMAN (*Senator Croll*): Yes.

Mr. McCORMACK: I do not know how much of the total is done in Canada.

Mr. URIE: I have no further questions, Mr. Chairman.

Mr. LEFEBVRE: Do you find in your experience in this field that a lot of customers of your former employer are not interested in having the interest rates explained to them; that a lot of them would just say: "Never mind that. I

can pay $75 a month. Tell me how many months I am going to pay."? Do you find that many of them are not interested in finding out how much interest they are paying?

Mr. McCORMACK: Yes, a lot of them say: "How long will it take at $75 a month".

Mr. IRVINE: In answer to Mr. McCutcheon's question I think you made the statement that the company took its paper at 6 per cent add-on; is this right?

Mr. McCORMACK: Yes.

Mr. IRVINE: That is the term you used, and you said that the dealer would take approximately 7 per cent. I think you were speaking in relation to a new car costing approximately $3,500. What do you mean by this? Is there a basic charge, and then 6 per cent added to that?

Mr. McCORMACK: They have a rate book, and they designate the rates. They might call it Chart No. 7 which would be a 7 per cent add-on rate, so to finance a thousand dollar car for a year would cost you $70 and the finance company would keep $60 and give the dealer $10.

CO-CHAIRMAN (*Senator Croll*): Could the salesman use the 9 per cent chart instead of the 7 per cent?

Mr. McCORMACK: Certainly, within limits. A good company would say, "You could not go any higher than this for a new car, because we don't want any more money than this; we must be competitive with the banks." Because if you go too high you lose business by people going to alternative sources.

CO-CHAIRMAN (*Senator Croll*): That of course is what you have said to us, that in having alternative sources, as your evidence indicated, there had been a reduction by virtue of the fact that the banks had come into the business.

Mr. McCORMACK: I feel so.

CO-CHAIRMAN (*Senator Croll*): That is eminently true. What some of us are thinking is this: What you said to us in effect was that here was a man who went shopping for credit and found he could get it much cheaper from the bank than from the finance company and that it cost him less money, so of course he got it at the cheapest rate. Supposing at the same time we indicated to him not only the money portion but what interest he was paying?

Mr. McCORMACK: In terms of percentage?

CO-CHAIRMAN (*Senator Croll*): In terms of percentage; and supposing we say, "This will cost you so much per cent; our rate will be 12 per cent." would that have any effect on him.

Mr. McCORMACK: We are getting into a different area, but I do not really believe that the good companies have any objection to full disclosure except that they do not know how to do it; and their argument of course is, what would you do with a school teacher, for example, that finances $2,000, and does not want to pay during July and August but in the following year gets a big Easter bonus. How could a salesman figure out a rate, anyway, and work out a reasonable simple interest.

CO-CHAIRMAN (*Senator Croll*): The Porter Commission on Banking and Finance says that if you give him as exactly as possible the approximation of the time he enters into the contract, that would be enough for all purposes.

Mr. McCORMACK: You mean, do I think that if I went to a dealer and he said, "This will cost you $100 or 11 per cent," that 11 per cent, might induce me to look somewhere else where I might get 10 per cent or 10½ per cent?

CO-CHAIRMAN (*Senator Croll*): Yes.

Mr. McCORMACK: I don't know whether it would scare me as much as the difference in dollars.

Co-Chairman (*Senator Croll*): I am talking now about the man Mr. McCutcheon is talking about, who has to watch his money pretty carefully, buys a car, has other debts, and finds himself facing an interest rate of 12 or 13 per cent. It is notorious in the second hand car field that the rate is far higher than that, as you know from reading the paper. Does that have any effect on any of these people?

Mr. McCormack: Yes; but remember that the banks look a little closer than the finance companies do, because the finance companies have the dealer to go back to, and the customer buying a used car may or may not qualify for bank credit. You have a problem there. If you drain off all the really good customers from the finance companies to the banks, and they in turn take a strata lower than they did, their rates are going to go up and you might get a bigger spread in between. It is a touchy affair.

It must be remembered that the dealers have to get rid of the cars they have in inventory. The used car buyer that wants a four year old car may well not be able to qualify for bank credit, because the sole collateral is a four year old automobile. The bank may very well turn that customer down, where as the man buying a new car, or even a year old car, will get a loan, while the customers in the lower strata will go to the finance companies, and the rates will go up there too naturally.

Mr. Nasserden: The reason for the add-on feature is by reason of the fact that they do not fear the reaction of a customer to what he is actually paying. Why not charge 11 per cent simple interest instead of 6 per cent or 7 per cent add on?

Mr. McCormack: I think it is for ease of handling for one thing. You must remember that there are five or six thousand car companies with up to 20 salesmen in some, and it is difficult to translate into simple interest for say 15 or 18 months, whereas if they get a flat charge printed in the table it is less difficult. I think it is more for ease of handling than anything else.

I do not think these companies have anything to hide, they just don't feel it could be worked.

Co-Chairman (*Senator Croll*): If you had been sitting with us for almost a year, you would wonder why they all came here opposing this very thing we are talking about. All the finance companies were here in opposition and in numbers.

Mr. McCormack: Was not their reason basically that it was the difficulty of doing this? That is the only reason I know of; possibly there are others.

Mr. Nasserden: You are reasoning that it is more difficult to get a simple interest rate than the add-on. As I read it, the add-on is a little more complicated to understand than a simple rate.

Mr. McCormack: Why?

Mr. Nasserden: Well, you take it at the end of every month and add it on, is that not right?

Mr. McCormack: You simply tell the statisticians you want a 6 per cent or 7 per cent add on rate and at various months from one to 36, and they will send you back a completed chart of that printed. Then you go to a salesman and say, "I want to finance a car for 15 months." The salesman looks at the column and adds it on the bill. That is all.

Mr. Irvine: I believe you made a statement comparing the percentage rate with the flat rate to the customer. Many customers are not too familiar with both of our official languages and sometimes they find it very difficult to translate these terms into their native tongue with which they are more familiar. I think that in order to clearly delineate the terms they should be set

down specifically so that a person can understand what these charges are, and that the actual amount should be set down in dollars and cents rather than in percentages. A great many people find it difficult to deal with percentages. Would you not agree with me on that? At the retail sales level you will find people say, "This is going to cost you 7 per cent or 8 per cent," or as it has been said, 1½ per cent per month, and the customer is all for it, rather than if he were told that the amount would be $47.63. On the other hand, you have your diversification of sales. Supposing, for example, I have a job with a sales company, and next January I will get a big bonus of $3,000 or $4,000, and I want to pay $50 a month, and I will pay the balance in January. You cannot deal with that in percentages, because there is a different set of values.

Mr. McCormack: Yes.

Mr. Irvine: Consequently, I can understand when I am told that I must pay so much in dollars and cents. You have already mentioned school teachers and seasonal employment and of course there are sailors, for instance, who work only so many months in the year and receive income only for those months.

Mr. McCormack: I have no objection to full disclosure, if somebody can devise a way—and I think, Mr. Chairman, you said as long as it was within a reasonably close approximation.

Co-Chairman (*Senator Croll*): That is the term they use. Actually, a contract with two of the largest retail organizations in the country tells you that it will cost you 1½ per cent a month. If it is set out in percentage as such, not many people perhaps would realize they are being charged 18 per cent.

Mr. Irvine: It may not amount to 18 per cent if they are paying 1½ per cent a month on a two year contract and for the last 12 months they are still paying 1½ per cent on the total balance of each month.

Co-Chairman (*Senator Croll*): It is on the balance of each month.

Mr. Irvine: Yes, that is different.

Mr. McCutcheon: Mr. Chairman, my question is not quite on the same point, but has to do with quite a volume of correspondence I have received in the past few months while this committee has been sitting. It has to do with a large retail corporation in this country which has given out to the public on a large scale credit cards or purchase tickets. Now people go to this place and purchase goods, and there is a date on these tickets. Let us just pick a date—I have here 28th of the month—that is the day that this man's account is due. Now I have one chap who has got in touch with me and he has had a credit balance of $100 with this large corporation on which he was making monthly instalments. He has religiously sent them a cheque on the 10th of the month, and each time his next balance came through his add-on service charge was not based on the $100 less his payment, but on the $100, and the explanation was always that it had not got through their accounting time between the 10th of the month and the 28th. Is this one of the reasons they do not like to disclose interest, because this looks to me like a pretty nice little gismo they have got going here.

Mr. McCormack: I don't know who it was, but I would not pay it.

Co-Chairman (*Senator Croll*): What Mr. McCutcheon is saying is absolutely true. I have heard that too, and not in a small organization either. They blame it on the IBM machine.

Mr. McCutcheon: This is one of the things we have to put up with as a result of automation.

Mr. McCormack: Automation has been a great excuse in many cases.

Mr. SALTSMAN: I appreciate very much the frankness you have displayed in answering the questions today. It is very refreshing to get somebody like yourself before the committee. You seem to be willing to answer any question whether it relates directly to the reason for your appearance or not. Because of your experience and background in this field, I am rather emboldened to ask you a broad general question on a matter which is going to come before this committee at some time. There is a private member's bill calling for an absolute ceiling on interest rates. I think the suggestion is for 12 per cent. Because of your experience, I would appreciate any comment you might make on this in a general way and particularly as to what the effect such a ceiling on interest rates might be. This means that nobody can charge more than 12 per cent on general merchandise sales.

CO-CHAIRMAN (*Senator Croll*): This includes cars?

Mr. SALTSMAN: Yes.

Mr. MCCORMACK: Simple interest?

Mr. SALTSMAN: Simple interest per annum. What would be the economic effects?

Mr. MCCORMACK: I think it would be pretty severe. I am not qualified to answer a question like that, but I think that the results would be pretty severe. I don't think a lot of credit could live on that. You would have all the good paper and the bad paper mixed up at 12 per cent?

Mr. URIE: That would be affected to a substantial degree by the availability of the money supply and its cost to the finance companies, would it not?

Mr. MCCORMACK: Yes, but even so the spread between the all-time high being paid now for borrowed money and the lowest rate for lending is only 2 or 3 per cent. If this went into effect you would be reducing the effective yield on some papers down to 3 per cent.

Mr. SALTSMAN: I ask this question because of your general experience, and we might not have an opportunity to ask it again. It obviously must have the effect of reducing the worst risks in the market. I think this would be one of the effects.

Mr. MCCORMACK: I think we would not dare take any risks.

Mr. SALTSMAN: By eliminating some of these extremely bad risks on the market, would not the industry really be better off in a way or are there so many bad risks that this would seriously affect the economy?

Mr. MCCORMACK: I think this would be tampering with things far beyond what you are getting at immediately.

CO-CHAIRMAN (*Senator Croll*): I think that is right too. We will drop it. If I recall it correctly, in California and New York there is a top limit for financing on cars beyond which they cannot go. I think it is $1\frac{1}{2}$ per cent per month. They stay well within that.

Mr. MCCORMACK: If you did that, for example, the finance company would not be able to pay a dealer reserve which they were able to pay. What happens then? It goes onto the price of the car.

Mr. IRVINE: May I ask a question supplementary to what Mr. Saltsman was asking? He was asking about the economic effects of this. Would not this be particularly oppressive to the type of individual who has very limited resources, a man, for instance, who lives 30 miles from where he works and wants to buy a $300- or $400-car to go to work? If he did not have something behind him he would not be able to get credit to buy the car.

Mr. MCCUTCHEON: It would be good for the Highway Safety Council, because we would have the biggest junk yards in the world.

Co-Chairman (*Senator Croll*): Gentlemen, if there are no further questions, let me on your behalf say to Mr. McCormack how much we appreciate his frankness, and the information which he has given us. It has been very helpful to us in an aspect of the problem with which we had not been able to deal before. We are trying to grapple with a problem which is not an easy one, as you can appreciate. Your willingness, Mr. McCormack, to come here this morning is very much appreciated by the committee and on their behalf I thank you.

For the members of the committee I should say that the situation as I see it now is that the steering committee will be away for next week. We will call a meeting of the steering committee when we come back from Saskatoon, and following some discussions then we will call a meeting of the whole committee for the purpose of outlining the scope of our report. That is the situation as I see it at the present time.

The committee adjourned.

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 2

(Inquiry into trends in cost of living commences in this volume.)

WEDNESDAY, SEPTEMBER 28, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. S. Ron Basford, M.P.

WITNESSES:

Department of Finance: Mr. R. B. Bryce, Deputy Minister; Mr. A. S. Rubinoff, Director, Economic Analysis Division.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

24049—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

FOR THE SENATE

Hon. David A. Croll, Joint Chairman

the Honourable Senators

Carter,
Croll,
Davey,
Deschatelets,
Hastings,
Hollett,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

FOR THE HOUSE OF COMMONS

Mr. S. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Bell (*Saint John-Albert*),
Cameron (*Nanaimo-Cowichan-The Islands*),
Cashin,
Clancy,
Coates,
Crossman,
Deachman,
Duquet,
Hees,
Irvine,
Leblanc (*Laurier*),
Lefebvre,
Macdonald (*Rosedale*),
Mandziuk,
Matte,
McCutcheon,
Nasserden,
Olson,
Otto,
Ryan,
Saltsman—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

24049—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, Sept. 28th, 1966

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.00 a.m.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Hastings, McDonald (*Moosomin*) and O'Leary (*Antigonish-Guysborough*).—5

For the House of Commons: Messrs. Allmand, Andras, Basford (*Joint Chairman*), Bell (*Saint-John Albert*), Cameron (*Nanaimo-Cowichan-The Islands*), Clancy, Coates, Olson, and Saltsman.—9

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

On motion of Mr. Olson, the minutes of a Steering Committee meeting held September 14, 1966, were adopted.

The Committee proceeded to consideration of the order of reference dated September 9, 1966.

The following were heard:

Mr. R. B. Bryce, Deputy Minister,
Department of Finance.
Mr. A. S. Rubinoff, Director,
Economic Analysis Division,
Department of Finance.

On motion of Mr. Cameron, statistical tables and charts referred to by Mr. Bryce, were ordered to be printed as Appendix No. I to these proceedings.

At 1.00 p.m. the Committee adjourned.

At 2.15 p.m. the Committee resumed.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Hastings, McDonald (*Moosomin*), and O'Leary (*Antigonish-Guysborough*).—5

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Bell (*Saint-John Albert*), Cameron (*Nanaimo-Cowichan-The Islands*), Clancy, Olson, Otto, and Saltsman.—8

Mr. Bryce and Mr. Rubinoff were further heard.

At 5.00 p.m. the Committee adjourned until tomorrow, September 29, at 9.00 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

> Previous volumes in this series contained evidence heard with respect to the inquiry into the problems of consumer credit and matters related thereto. Commencing with this issue, most subsequent volumes will contain evidence related to the inquiry into trends in the cost of living.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Wednesday, September 28, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Mr. BASFORD: The Committee will come to order.

May I thank you all for coming. The first order of business this morning would be to read and approve the minutes of the steering committee which met on Wednesday, September 14. Copies of these minutes were sent to all members, and unless I am requested, I do not intend to read them, but to ask for a motion that they be adopted as circulated.

On motion by Mr. Olson, seconded by Senator Hastings, minutes adopted.

Co-Chairman Mr. BASFORD: It is our intention to meet later today in the full committee *in camera* with our director to outline to you the further work of the Committee at future sittings. We shall also deal with some of the considerations pertaining to people who will be called before us.

So without going into further housekeeping matters at this time, I would express first my appreciation to the steering committee, all the members of which came back to Ottawa on September 14 for the meeting, and to you, gentlemen, who have given up time during recess to start our meetings before the house resumes.

Now I would like to introduce Dr. Warren James, who is on my right, next to Senator Croll, who has been retained by the steering committee as our Research Director.

Our counsel, Mr. John J. Urie, is unavoidably absent this morning, but will be in attendance at later meetings of the committee.

Our first witness this morning, gentlemen, is Mr. Robert Bryce, Deputy Minister of Finance, who, I believe, has a prepared statement that has been circulated to you by the Clerk at the table.

Mr. SALTSMAN: On a point of order, Mr. Chairman, before Mr. Bryce is asked to make his statement, I would like to raise a matter with the committee. I refer to the announcement that the Canadian automobile dealers will implement increases in their prices sometime tomorrow or Friday. I would like to ask if this matter could not be referred to the steering committee for consideration and in the event that a price increase does take place I ask that the steering committee might consider what action to take.

Co-Chairman Mr. BASFORD: It is the intention to call a meeting of the steering committee later today, and I would hope we would take note of this request and deal with the matter at that meeting without a formal motion now.

Mr. OLSON: I wonder, Mr. Chairman, if we could agree now to a 30-minute recess from 10.15 to 10.45 for the official opening of the Commonwealth Parliamentary Conference.

Co-Chairman Mr. BASFORD: I am, of course, in the hands of the committee. Would anyone like to say anything on this matter? The conference opens at 10.30, and Mr. Olson's suggestion is that we adjourn for a short period for that opening. Is there any expression of views?

Mr. OLSON: I don't know whether there should be a motion or not.

Co-Chairman Mr. BASFORD: Nobody has opposed the suggestion. I take it as being the consensus that we should adjourn at 10.15 and reassemble at 11 o'clock. The difficulty in a situation like that is that members would straggle back in, and if we are going to break at the time stated I would emphasize that we should meet again at 11 o'clock promptly. If that is the feeling of the committee, I will take it as agreed.

Mr. Robert B. Bryce, Deputy Minister of Finance: Mr. Chairman, I should like to start by saying that I welcome the opportunity to appear before this committee. We feel in the Department of Finance that this is a most important subject, and we are very glad that Parliament has shown the interest it has in enlarging the terms of reference of the committee and giving attention to this subject. I suppose it is appropriate that I should be one of your first witnesses, as it was my minister who moved in the House that the terms of reference should be enlarged.

In commencing, I have not distributed a prepared statement. I have some notes from which I will talk that I finished only last night. I have had, for convenience of reference, copies prepared of the statement which the Minister of Finance made in the House on September 8 on this general subject, in case members of the committee may wish to refer to it in the discussion. I will not try to speak on all the subjects that have been covered in that statement. In particular, I would think it best to defer any official witnesses speaking on the question of incomes policy or guideposts until after the receipt of the report of the Economic Council, which, I understand, is likely to be received in about a month's time. This is what was forecast by the Minister on September 8, and as far as I have been able to ascertain, as of yesterday, that is still the date when the Council hopes to have its report ready.

After talking to Mr. James, I thought that the way I could best help the committee commence its study of this general situation was to place before the committee the main facts and figures concerning the flows of expenditures in the Canadian economy, the changes in prices that were occurring in connection with such flows, and the incomes that they generated, and they way in which Government revenues and expenditures fitted into these developments.

The department has, therefore, prepared a series of tables and two or three charts which have been distributed to members of the committee and it is from those that I would propose to take off.

The set includes as Table 11 the figures of consumer prices which are, of course, the matter of most public concern and concern to the committee. I would not suggest, however, that we start there, but rather that we start with the more comprehensive figures and come to this particular subject.

I may say that these tables are all based on the figures of the Bureau of Statistics, so we have given no attribution of source otherwise. The bureau has helped us and the committee to place these before you by bringing out the figures for the second quarter of 1966 two or three days ahead of time, and these are incorporated in the figures for the first half of the year that are in these tables. The figures for national expenditure, product and such appeared in the daily bulletin of the bureau on Tuesday, I think, and the detailed tables will be coming out within the next 24 hours, I believe. This enables us to review the situation up to the end of June this year on the basis of definite statistics. Naturally, there are a few series that come up later than that, price series and

individual things, but we have not attempted to bring everything up to date beyond the comprehensive figures that are here. I think they give a reasonable picture of the way things have been moving.

I would suggest first that we look at Table No. 1 on gross national expenditure. This shows the money demands that are made on the Canadian economy and its various resources and, of course, it is these demands that are made, which constitute the "pull" forces tending to create an inflationary situation and which represent the development of inflationary forces. You will notice listed down the left-hand side of the table the main categories of expenditures. The first are consumer expenditures in line 1. The second are Government expenditures; the third, business capital expenditures. Business operating expenditures, I may say, are, of course, incurred in producing the goods and services that are covered in other categories, so we only segregate the business capital expenditures for separate attention. The fourth is the value of the physical change in inventories—a relatively small item which is of some economic significance, however. The fifth are figures for exports. The demand for exports, of course, constitutes an additional demand on the Canadian economy, and while it is a welcome one, in many respects, we have to recognize that additional export demands constitute inflationary tendencies, just as increases in any other demands do so. They are offset, however, by the next line, the imports of goods and services. These help to satisfy the demands in the Canadian economy, at the cost of having to use up foreign exchange we earn through exports and otherwise. The imports are one of the important counter-inflationary forces in the economy.

Line 7 is the residual error. The statisticians have not achieved perfection in making everything balance, and this shows the degree to which they have been unable to account for the tables.

Line 8, the gross national expenditure as market prices, is a measure of the total value of all the goods and services purchased from the Canadian economy in these various categories.

The right-hand columns in the table have been constructed to show you the changes occurring in these various categories in recent years. The far right shows the increase over the whole period from 1949 to 1965. We have taken 1949 as really the first year in the post-war period when conditions were sufficiently settled down that it is worth while making a comparison. The immediate post-war years, of course, were disturbed for a variety of reasons. We have calculated the rate of increase compounded. That is to say, if we are talking here of the top line, if the consumer expenditure increased every year from 1949 by 7 per cent, at compound interest it would reach the level that is shown here for 1965. All those figures down that column are such measures of the rate of increase that has occurred over the period as a whole.

The next column on the left shows the figures for the increase of the first half of 1966 compared with the figures for the first half of 1965. That is the latest change for which we have the material.

You will notice they show here that expenditure as a whole in the economy has increased by 11.4 per cent—this is down in the bottom line—over that 12-month interval as compared with the longer run rate of increase of 7.5 per cent and with the other rates of increase that are shown to its left.

The next column shows the increase in 1965 over 1964. You will notice that the total as shown in the bottom line has increased by 9.7 per cent between 1965 and 1964.

The next column shows correspondingly the increase in 1964 over 1963, and that was 9.2 per cent.

Perhaps I should add at this point that the committee members will be more familiar with the idea of gross national product which is used in many

statistical comparisons, and in the budget and things like that. The gross national product is, by definition, equal to the gross national expenditure. The expenditure is what buys the product, and it is just broken down in different ways when we look at expenditure from what it is when we look at the product. Table 5 below gives the figure of the gross national product.

Excuse me for taking up so much time in explaining it, but I thought if I explained what these various columns and lines were it would help in understanding what was going on.

There are two or three points I would draw to your attention in this general conspectus of expenditures. First, as I noted, the overall gross rate for this postwar period has been around 7.5 per cent in expenditures. This includes, of course, what arises from the growth in the population of Canada, and the growth of the working force. It includes not only the effect of increasing productivity but the effect of increasing prices as well. It is the most comprehensive figure that we have, but it is something from which we can start.

When you look at the various components you will see that in this longer term growth, personal expenditures have grown slightly less than the total. Government expenditures have grown significantly more; they have grown by 9.9 per cent over this whole postwar period. Business capital expenditures have grown by about 8 per cent. Exports have grown a bit less than the total, and imports have grown by exactly the same figure as the total over the long term.

Well, this gives an indication of the general growth trends that have been taking place in the economy, and the various elements of expenditure that are met with our output.

If we look at the last several years we will notice, as is shown in the rates of increase in the bottom line that these have been going up. The increase in 1964 over 1963 was 9.2 per cent; the increase in 1965 over 1964 was 9.7 per cent; and the increase in the first half of this year over the first half of last year was 11.4 per cent.

This is the essence of the problem that is now engaging our attention, because it is this increasingly rapid rate of increase in expenditure in the economy that we see as being behind the problem of rising prices and inflationary tendencies. Now, of course, if these increased expenditures could all be met out of increases in production they need not give rise to inflationary tendencies. The later tables will illustrate to what extent there have been associated with these changes, changes in the volume of production and of prices.

Mr. Chairman, that is all I had intended to mention about this first table. If there are questions about it perhaps it would be worth while to pause at this moment in order to answer them.

Mr. Olson: I have just one question. At the top you have "Gross National Expenditure", and then the term "Current Dollars". Are these current dollars in each year that is indicated, or are they 1966 dollars?

Mr. Bryce: I should have mentioned that point. Those are for each year. Those are the dollars that are actually spent, rather than adjusted to any common price level.

Senator Carter: If these were reduced to 1949 dollars would there be any significant change?

Mr. Bryce: I am coming to that. That is in table 3.

Co-Chairman Senator Croll: Proceed, Mr. Bryce.

Mr. Bryce: Table 2 is a simple table. It is simply taking those expenditure figures, and indicating for each column what the percentage is of the total expenditures in that year. There are, however, two or three points that are of

interest here. First, you will notice that the proportion of our national expenditures going into business capital formation has been rising since 1962, as the upswing has developed, and is now at a high level of 20.8 per cent. Now, these do not include the capital expenditures of government. Those are part of line 2, and the corresponding figures are in the first table. If those were added, the total capital expenditures in the Canadian economy currently would show somewhere around 25 per cent. This means that about one dollar out of four dollars being spent in the Canadian economy now is not being spent to meet current demands, but is being spent to meet needs for the future. It is being spent for capital purposes.

This, I think, indicates that Canada is not living imprudently. We are making ample provision for the future in one form or another. We are building factories, we are building roads and all sorts of other things that go into capital, whether it be public or private. But, this high rate of capital formation is one of the things that is creating our problem—and a variety of problems—because when we spend as high a proportion of our income as this represents on capital we have got to get the necessary savings out of the country. Some one has got to keep down their current expenditure and provide the savings necessary to finance these capital expenditures. I will come to the sources of savings later on in this series of tables. Table 10 covers that. But, I think the point is important enough to make it at the beginning.

This is where a considerable part of our problem comes from, but I think it does have an assuring element that the country is not behaving extravagantly. It is making a good deal of provision for the future.

These figures for capital expenditures, which are currently at something over 20 per cent for business, are rather high by Canadian historical standards, and they rank well up by comparison with other countries, although other countries vary a great deal, of course, depending upon their circumstances and policies.

The other point I would draw to your attention is in line 2, "Government Expenditure on Goods and Services". We will come later to the breakdown of Government expenditures, but these figures and this proportion represents the fraction of the output of the country which the various governments—federal, provincial and municipal—are demanding in terms of goods and services, rather than simply in terms of transferring money from one person, or one group of persons, to others. You will notice that this proportion has been relatively stable since 1960. In fact, the figures for the last six months turn out to be just the same. Even 1960 showed relatively little change from 1955. The physical demands, so to speak, put by governments on the economy have not been greatly altered over this period, although of course government expenditures have grown very rapidly along with the total production of the economy through that period.

The various statements by ministers in recent months have shown that the projections that governments have made of their future plans involves some increase in government spending over the future as a proportion of the gross national expenditure, although a fair amount of that is in transfer payments rather than in the expenditures on gross goods and services.

I think those are the two main points arising out of this table. Mr. Chairman. I do not know whether there are any questions on that?

Mr. Allmand: Does item 1 include expenditures by business for things other than fixed capital formation? In other words, does it also include expenditures at wholesale and from the primary producer, not just the retail?

Mr. Bryce: They tend to cancel out. These are estimates, figures for what individuals and groups of individuals spend on goods and services. They pay

those over to business, which in turn has to pay funds out to other businesses to get materials or semi-finished goods, things like that, and wages. Other businesses in turn will be paying out to still a third group, and when we take into account what business receives and pays, that cancels out except for capital formation elements, and that is why we showed them separately, but in the first line we take into account only the final consumer demand for products and services.

Mr. CAMERON: How inclusive is the first item, the personal expenditure on goods and services, does this include dutiable goods such as housing, all private personal expenditures?

Mr. BRYCE: This includes all the current expenditures of consumers, but the building of houses is included in line three as part of the capital formation of the country. The renting of housing would be in line one, I think.

Mr. CAMERON: But where does the expenditure of buying a house appear?

Mr. BRYCE: If you are buying a house already completed and owned by somebody else that is just a transfer, not part of our new production. This table represents the accounting for the new production in the country.

Mr. CARTER: If I am building a house?

Mr. BRYCE: If you are building a house that will apply in line three as part of the capital formation of the country. Buying a car comes under line one.

Mr. CARTER: This is not business capital formation?

Mr. BRYCE: It is normally done as a business to start with, and then the consumer purchases the production of the business. Housing is the only item where we segregate the capital element away from the ordinary consumer expenditures, and we do that because it is such a large element.

Mr. ALLMAND: Does item 6 include imports by both business and the consumers?

Mr. BRYCE: Yes. It also includes payments for a variety of services and such things as dividends and interest paid to non-residents for the use of capital that has been borrowed.

Co-Chairman Mr. BASFORD: Are there any further questions on table 2? Go ahead, Mr. Bryce.

Mr. BRYCE: Table 3, Mr. Chairman, makes the correction that one of the members was inquiring about earlier. In this table the Bureau of Statistics has taken the figures of table 1 and adjusted them for price changes. They do this by dividing up table 1 into some 200 categories for which they can get some reasonable indication of the prices, and they adjust the price of each of those categories and then estimate what table I would be if the influence of changing prices was taken into account. So that these are expenditures in constant 1949 dollars. Now, of course, they could be valued in 1965 dollars by manipulation, so the figures look abnormally small currently because we tend to think more in terms of current prices; but these show the growth rates, so far as we can reasonably find them, in terms of real goods, and that is one of the chief purposes of making these calculations and of my placing them before you.

If you would look now at the bottom line, you will see what we have been able to buy in real terms. The bottom right figure shows a rate of growth over the period of 4.6 per cent in the production of goods in real terms in the country as a whole over the period. This is not a growth production per capita. This is influenced by the growth of the population, and particularly of the labour force. We will come to the effect of the labour force growth in a later table. But it does indicate how much increase per year we have had to dispose of one way or another in the economy over these years.

You will notice that in the last five years the rate of increases of real output has been higher than over the period as a whole. You will see here the figures between 1963 and 1964 were 6.5 per cent, and between 1964 and 1965, 6.7 per cent, and between the first half of 1965 and the first half of 1966 they are at a much higher level, 7.2 per cent.

The statisticians take into account the volume of the crops as soon as they can estimate them. The volume of this year's crops, I am informed, the big bumper crops, have been put back into the first half of the year figures, even though they were not available then, of course. That is one reason for this large increase. The year of 1966 as a whole would average a lesser increase over 1965 than the 7.2 per cent figure shown here.

If one looks back at earlier years, they do not show on the table, but the increase between 1962 and 1963 was 5.1 per cent, and between 1961 and 1962, 6.7 per cent. That is tracing it back to the current period of economic expansion. So those years have all shown a rate of increase greater than the 4.6 per cent over the period as a whole. They reflect the very rapid rate of increase in the labour force that has been going on during the 1960's; they also reflect the reduction in unemployment that has been going on through the 1960's, and the greater utilization of our industrial capacity, and also the increase in our productivity during that period. We will come to the figures of the gross productivity later on, but I thought I should draw your attention to the scale on which output has been increasing during this period.

Now, if we look at the lines above in the chart, it will be seen who has been getting these real increases in output. I do not think that an examination of this table indicates anything very surprising that is not already shown in chart No. 1.

Co-Chairman Mr. BASFORD: Are there any questions on table 3?

Senator CARTER: You do not have any figures for the average increase in rate of population?

Mr. BRYCE: We can get that out for you, sir. You will find in table 8 an increase in the labour force employed, in line two, which gives some idea of what is happening. We will get the population figures.

Co-Chairman Mr. BASFORD: If there are no further questions, we can pass to table 4.

Mr. BRYCE: Table 4 brings you the prices. Do not be deterred by the heading: "Implicit Price Indexes . . .". This is the most comprehensive indication we could give you of what changes have been going on in prices. This is what one gets by dividing the figures of table 3 into the figures of table 1.

I told you that table 3 was constructed by taking table 1 and adjusting for price changes in 200 different series or thereabouts. When we compare the two, we then get what are called these implicit price indexes. It groups together the price changes in these various categories, so that we can see then how price changes of the various kinds of expenditure compare.

You can see the relative rates of changes of prices in different periods and in different categories.

Again, at the bottom line, which is the most comprehensive line, the total, you will see that the compound rates growth over the period as a whole in prices has been 2.7 per cent. That figure includes the Korean war period, during which, as you will note, prices went up quite considerably—from 103.1 in 1950 to 123.8 in 1955.

If we take the period from 1955 to 1965, the past 10 years, the rate of increase has been 2.2 per cent. We calculated it separately.

That gives you a sort of long-term figure against which we can look now at the more recent figures. You will see that between 1963 and 1964 the change in

this comprehensive price index was 2.5 per cent; between 1964 and 1965 it was 2.9 per cent; and between the first half of 1965 and the first half of 1966 it has been 4 per cent.

This is an accelerating rate of price increase. This gives you some measure of what it is over the economy as a whole and not just concentrated in the consumer sector, the construction sector or something else.

The lines above show what it has been in the particular sectors.

The first line shows the price indexes applicable to personal expenditures on goods and services. These figures are comparable to what is shown for the consumer price index that comes out monthly, except that it is a bit more comprehensive and it is rather differently weighted.

You will notice that, over the period as a whole, this is 2.2 per cent, as compared with the prices of all kinds, of 2.7 per cent. If we look at the last 10 years, it is 1.7 per cent. That is not shown in the tables but we have calculated it separately afterwards to show what it is when we take out the Korean war period.

The next line that I would direct your attention to is Business Gross Fixed Capital Formation. Here you will see that, over the period as a whole, the increase has been somewhat more than for the total, and the acceleration took place earlier. In particular, between 1963 and 1964, these costs were increasing at 4.3 per cent; then in 1964-65 at 4.4 per cent. The rate shown for the first half of 1966 over the first half of 1965 is 3.1 per cent. Some may doubt this, who had experience in building things, but this is clear as the overall picture.

I think we are all familiar with the fact that the first impact of increasing costs was being felt in the construction boom in 1964 and 1965; and this shows up here in these figures with some quantities attached to it.

Another line to which I direct your attention is that for Government. The figures for Government expenditure show a high increase in prices. This is not because the Government pays higher prices than other people: it is for a rather different reason. You will notice that the expenditures, both personal expenditures and business capital expenditures, and exports and imports, are largely goods. The Government expenditure shown here includes a large amount of wages and salaries, much more than shows in the final product of these other items. Consequently, there is no account taken in the Government expenditures here for increasing productivity.

The statisticians have not learned how to measure the increasing productivity of civil servants, or of hospital workers, as such. We will come to that point when we get to one of the other tables. That is the reason why the prices paid for Government shows up as so much higher than others. There is a large wage component, a direct wage component, in it.

I think those are the main points to which I would draw your attention in this table, Mr. Chairman.

Co-Chairman Mr. BASFORD: Are there any questions on table 4? If not, we will proceed to table 5.

Mr. BRYCE: Table 5 is the makeup of the Gross National Product. The gross national product, as I was saying earlier is really what is bought by gross national expenditure. That is why they are the same. But it is a different breadkown of the value of production.

This breaks it down by the value of the various things that go into the pricing of the product.

Line 13 of the gross national product is valued at market prices, just as expenditures were. This table shows how it was made up.

The first and largest element is wages and salaries and other labour income, which for last year you will notice, was $26 billion.

Item 2, military pay, is much the same but is separately shown.

Item 3 is corporation profits before taxes. We separate incorporated from unincorporated business.

Item 4 takes from the total of corporate profits here the dividends paid to non-residents, which is shown here as a negative item.

Line 5 adds in the rents, interest and miscellaneous investment income; and you will notice that for 1965 that is a fairly sizeable item of $3.6 billion.

Item 6 is the accrued net income of farm operators from farm production. I stress the word "accrued". These figures jump around a bit, and one reason is the variations in crops and another is variations in what the Wheat Board is holding to the credit, for example, of grain farmers in the west. It differs from the cash income, the immediate disposable income of the farmers.

Line 7 is net income of non-farm unincorporated business. You will notice that that is about 2.9 billion dollars as compared with 5.2 billion dollars for corporate profits.

Line 8 is a tricky little item to adjust the valuation of inventories in order that the figures will add up in a consistant way to the value of output at market prices.

The total of those eight items is shown in line 9. This is the total cost of what is produced in terms of the incomes paid out currently.

Item 10 adds to the total of indirect taxes levied by governments.

Now, those have to be added by the sellers of the various goods and services in order to get the funds to pay to the governments concerned. From those indirect taxes we deduct the subsidies which have the reverse effect.

Item 11, Capital Consumption Allowances and Miscellaneous Valuation Adjustment, comprises the capital Consumption Allowances or depreciation allowances which businesses have to charge in order to recoup over the long run the costs of the capital investments that they have made in advance.

No. 12 is that same kind of residual error of estimate that we noted in speaking about the growth national expenditures in getting to a total that will be consistant with the total of growth national expenditures. You will notice that it is remarkably little in a 52 billion dollar total.

Well, that is a description of the nature of the items. This breakdown focuses attention on quite different features than did the breakdown of expenditures.

The rates of increase in this are, again, of interest. The total, of course, has increased in the same way as gross national expenditures are increased.

When we look at the main components, labour income, in line 1 has increased over the period as a whole by almost the same as the total has increased: 7.7 per cent over the whole period as compared with 7.5 per cent.

In recent years the increases are shown in the other spots in that column between 63 and 64. Labour income did not increase as quickly as the total; it fell a little short at 8.8 compared with 9.2. In 65 it increased significantly more than the total: 11.1 as compared with 9.7.

In the first half of 66 over the first half of 65, labour income increased 13.0 per cent as compared with 11.4 per cent for the total.

Military pay and allowances is too small and special to worry about. It has been going down as the size of the forces has gone down. It has been increasing less because of that, in recent years.

Corporation profits before taxes are shown in line 3. You will note that in 64 they increased notably more than the gross national product as a whole. In 65

they increased slightly less than the gross national product as a whole, and, in the first half of this year over the first half of last year, they have increased at a rate less than half of the increase rate for the gross national product as a whole.

I do not think we need to look for the moment at the dividends paid to non-residents, which are somewhat more stable recently.

No. 5 is the rent, interest and miscellaneous investment income. There is nothing I would draw attention to on that particular item at this stage.

Item No. 6, accrued net income of farm operators from farm production: increases in recent years have varied there quite considerably because of variations in crops and because of the way in which the timing comes in. You will notice a phenomenal increase for the first half of 1966 over the first half of 1965. This is something that would require a detailed explanation which I think it would be best to get from someone else later.

No. 7 shows the net income of other unincorporated businesses. You will notice that over the period as a whole it has been increasing much less than the total gross national product, reflecting the gradual diminution of the roll of unincorporated business as compared with incorporated business, just as the low rate of increase over the period as a whole for farm production reflects the gradual reduction in the total place of agriculture in the canadian economy as a whole.

Those are the main components there. In No. 9 it is evident that for the period as a whole the current costs of productive output have been growing somewhat less than the value of the output itself; that is, 7.1 per cent—there in the righthand column—as compared with 7.5 per cent.

If we look in recent years, between 63 and 64, the costs of producing the output, including profits, have not gone up as much as did the market value; then in 65 as compared with 64, they were roughly the same. In the first half of 66 the increase has been slightly more for reasons that are evident in the next two lines.

Line 10 shows the role of government: indirect taxes less subsidies. In this picture you will note that over the period as a whole these have increased at 9 per cent a year as compared with the overall value of gross national product of 7.5, and this increasing rate, of course, has been one of the things causing the spread between the 7.1 for the value of product at cost and its market value.

This is a reflection of a part of the financing of government expenditures.

Line 11 brings in the depreciation on capital equipment, the allowances for capital costs incurred in previous periods, and it is to be noted that that has grown over the period as a whole at a rate of 8.4%. I think perhaps that is somewhat deceptive, because the basic system used for capital cost allowances changed between 1949, when the new Income Tax Act was enacted, and 1955, when the new arrangements had gone into effect.

The breakdown of corporation profits, the breakdown between Item 11 and Item 3, that is to say how much is profit and how much is capital cost allowances, is essentially dependent on the income tax treatment here. I think this is fair to say.

These statistics are essentially derived from the taxation statistics and, consequently, the change in the income tax treatment early in the period has led to a rather larger element in the last 10 years for capital cost allowances than earlier, and, if we look at the rates of increase in the last 10 years, the increase in capital cost allowances has been 6.5 per cent compounded as compared with 6.7 per cent for the gross national product itself.

This indicates that it has been through that period a relatively steady influence, and the main change that is noticeable in the figures occurred during that period of the change in practice in the early 50s.

Well, I'm afraid that is quite a mouthful about that table. There are all sorts of interesting implications in it, some of which are explored in the succeeding tables.

Mr. Cameron: I notice, Mr. Bryce, the item you decided did not call for comment seems to be one that does call for comment. I refer to No. 5. I notice in the period between 1949 to 1965 wages and salaries have increased about 3¼ times; corporation profits have increased somewhat less, only about three times, but rent, interest and miscellaneous investment income have increased over five times. Would that not suggest that this is one of the points we should look at for inflationary practices?

Mr. Bryce: Let me try to find some of them. May I pick out some of the major items? First we have the net rents received by individuals which amount to some $709 million. I may say that we have basic figures here which include interest on the public debt, but we do not treat the interest on the public debt as part of the cost of the gross national product, so we have to deduct that again. The rents received by individuals have grown over this period at a rate of 6.6 per cent.

One of the largest and the most rapidly growing elements in this total has been the investment income of life insurance companies and the pension funds that they hold; that has grown from $130 million at the beginning of the period to $818 million at the end, for a growth rate of nearly 12¼ per cent. It is the fastest growing large item in the total.

The bond interest received by individuals directly has grown by some 7½ per cent, and that is the accumulation of savings by individuals in the form of bonds. Then there is a whole variety of other things like interest on bank deposits, trust and savings deposits, credit union deposits, mortgage holdings by individuals, foreign bond holdings, government annuities, dividends from abroad, profits on mutual non-life insurance companies, royalties and all that sort of thing together, which are miscellaneous items that really turn on individual savings and they have grown from $231 million to $1,208 million, which is a growth rate of 10.9 per cent. This is the accumulation of other forms of individual savings essentially.

Now, form that, one takes away the interest on consumer debt, a matter of considerable interest to this committee in its other reference, which has gone up quite considerably over the period from $21 million to $245 million, an increase of 16.6 per cent per year. From this whole total which includes private investment income, and I see here "Government Trading Profits"—that means, for example, the profits of Ontario Hydro or Polymer or even the post office—

Co-Chairman Senator Croll: C.N.R. profit too?

Mr. Bryce: That has not been troubling us, sir! That figure for trading profits is included and has gone up from $186 million to $747 million. The main profit, of course, that the Government of Canada receives is from the Bank of Canada.

Now from all of that, we have to deduct the interest paid on public debt which is shown elsewhere in these tables. That has increased at a rate which is somewhat less than the increase in the gross national product; it is 6.8 per cent as compared with 7.5 per cent. Out of all that rather complicated calculation we get this line of figures to which you refer. And it is, of course, not only a question of the rate of return that people are getting from their savings, but as the public accumulates savings, they show up here—the rate of accumulation shows up in the growth of this figure.

Mr. Cameron: I was wondering if you would be able to get your staff to prepare a table setting out these things you have told us in answer to my question so that we may have some idea of this particular situation. It seems to

me to be extremely important that we should realize the implications of this tremendous growth in this particular area.

Mr. BRYCE: We will take it up with the Bureau of Statistics. These are their figures and it might be best if they prepared these.

Co-Chairman Mr. BASFORD: I will recognize Mr. Olson at 11 o'clock. May I first of all have a motion that Mr. Bryce's tables be incorporated in the record and printed?

Mr. CAMERON: I so move.

Co-Chairman Mr. BASFORD: It is moved and seconded. Motion agreed to.

(*See Appendix* "1")

—Upon resuming at 11.00 a.m.

Co-Chairman Mr. BASFORD: Order, please. The ceremonies are not finished in the Centre Block, but I notice that many of the members who were there have come over anyway, so we will proceed.

Mr. Olson was to be recognized, I think. Mr. Allmand had a supplementary to Mr. Cameron's question first.

Mr. ALLMAND: Mr. Bryce, it was with respect to some of the points brought out by Mr. Cameron. Are we to understand, Mr. Bryce that Item 3, corporation profits, and Item 7, net income of non-farm unincorporated business, do not include income from rent, interest and miscellaneous investment? In other words, does Item 5 include rent, interest and miscellaneous investment income for corporations in other businesses as well as individuals?

Mr. BRYCE: Item 5 includes interest paid by businesses to Canadians which is a cost to the Canadian business concerned and is, therefore, not part of the profits either of corporations or an unincorporated business. So that the interest or rent appears in Item 5 but not in Item 7 or 3.

Mr. ALLMAND: Therefore, when you say "interest paid to Canadians," you include Canadian corporations?

Mr. BRYCE: Interest received by a corporation is part of its gross income. It may be paying interest too. If it is making a profit out of the receipt of interest, amongst other things, it will be in Item 3.

Mr. ALLMAND: I see; that is it.

Mr. BRYCE: Yes.

Mr. OLSON: Mr. Chairman, Mr. Bryce: I would like to refer you to Item 6 and request some additional explanation on these matters.

There is a very large increase in the first half of 1966 over the first half of 1965 on accrued net income of farm operators from farm production. There is also a significant increase in 1965 over 1964, and yet the long term increase of only 1.7 per cent from 1949 to 1965 is about the lowest increasing factor in the whole table.

I wonder if we could have some explanation as to why this is so. Is it because farmers have an annual optimism in the spring respecting their crops that fades away in the fall on realization, because I did think you mentioned this includes an estimate of production for every year. Therefore, does this take place annually? In other words, how much credence can we give to this figure of 42.2 per cent?

Mr. BRYCE: I was just as surprised as you, Mr. Olson, when I saw this figure, and I asked for explanations of it too.

Perhaps I could give you an idea of what makes up this figure for 1965, which is the latest year for which we have the detail. That shows a total farm cash income of $3,741 million. To that you add income in kind of $398 million, and farm inventory changes of $56 million, getting $4,195 million. That is to

say, we add to the cash income what they get in income in kind and the value of the inventory change. That gives the gross. From that we have to deduct farm operating expenses, which were $2,058 million, and we deduct $376 million for depreciation. After that are two items which I will have to have some of my assistants explain because I do not know enough about what they mean. "Add adjustment on grain transactions." It takes account of the undistributed profits of the Canadian Wheat Board which are attributed to the farmers to whom they will be payable. Then there are a number of other adjustments that have to be made, a lot of minor things, which are a total of $72 million out of this several billions. All of that brings down the gross income to $1,645 million, which is this figure here in the table under 1965.

With the large crops this year they have in estimating—You see, these estimates for the first half of the year are seasonally adjusted annual rates. In order to get those the Bureau of Statistics tries to say what was really accruing to the farmers, allowing for the fact that in the three months of April, May and June the crop was only growing. It was not harvested, and you could not even see how big it was going to be. However, they have tried to include in that an allowance for the crops that have now turned out to be quite large crops. So they have included in this item for the first two quarters of the year some allowance for this year's large crops. The result of that is why this accrued net income of farm operators from farm production during last year averaged only this $1,645 million, and, in fact, it went up during the year. For the first quarter of 1966 the bureau puts it down as $2,172 million; and for the second, almost the same, $2,180 million. That means the influence of these quite large crops shows up even before the crops were harvested. That, I think, is the reason for this quite substantial increase over the first half of last year.

Mr. OLSON: We will probably not have the actual figures by the time this committee has finished its consideration of the matter that is referred to us, so we will have to, perhaps, rely on these estimates for our purposes, at least for the last half of this year.

The question I wanted to ask was whether or not these annual estimates—whether it is an annual occurrence that the actual is adjusted downwards from the estimates. Is this something that is a normal thing?

Mr. BRYCE: Let me ask Mr. Rubinoff to answer that. He knows more about this than I do.

Mr. A. S. Rubinoff, Director, Economic Analysis Division, Department of Finance: It depends, Mr. Olson, on what eventually happens to the crop. I think the estimates made about this time of year are more or less solid, although by the time they have the final figures in, particularly for grain that is, say, destroyed or lost, it does change the thing slightly. Perhaps the agricultural people, when they come, could give more detail on that. They are far more expert than we are on this. But about this time of year the figures are quite close. I think it is based on an estimate of about 800 million bushels for the year.

Mr. OLSON: Do you think they are going to be reasonably close to the actual, these estimates, with regard to coming up with this figure of 42.2 per cent? Could you indicate whether in some of the other years from 1949 to 1965 there have been some years when there has been a significant decline? Does that account for why we come up with an average of 1.7 per cent?

Mr. BRYCE: In 1961 there was a big decline. You know better than I do what the crops were at that time. The reason for the 1.7 per cent growth is that agriculture is a diminishing part of the economy as a whole. A great deal of manpower has left agriculture and has gone into other fields. The increase in

productivity in agriculture has been quite high. This income of 1965 is distributed amongst a far smaller number of farmers than the income of 1949 was.

Mr. OLSON: But that would not affect the 1.7 factor as an average over the whole period, would it?

Mr. BRYCE: The reason the figure is so low is because agriculture has not been growing in aggregate in the way in which, let us say, manufacturing or mining has been growing through the period. The number of farmers has been diminishing, and not growing.

Mr. OLSON: Mr. Chairman, I do not quite follow this. Mr. Bryce said that regardless of the number of people involved, 1.7 represents the extra dollars —that is right, is it not?—rather than the proportion respecting the number of people involved.

Mr. BRYCE: That is right, the 1.7 is the growth rate of the net income of farm operators. Even though the income per operator has been growing much more than that, the decline in the number of farm operators is reflected in this relatively small growth rate in the total.

Mr. OLSON: I am afraid I do not follow that as having a direct bearing on the total, whether you relate it to one farmer or a hundred farmers, as a portion of the total economic activity.

Mr. BRYCE: All I would say, sir, is that the agricultural sector of the economy has not been growing at anything like the same rate as the others.

Mr. OLSON: I have one other question, Mr. Bryce. I wonder in respect of these two figures—the 12.4 in respect of 1965 over 1964, and the 42.2 in respect of the first half of 1966 over the first half of 1965—if you have figures before you that would indicate how much of this change is made up in volume, and how much of it is made up in price increases, if any.

Mr. BRYCE: I am sorry; we do not have those figures with us here, but it would not be hard to work them out either for your discussions with the Department of Agriculture next week, or we might even have them worked out before one o'clock.

Mr. OLSON: I do not think we need them before one o'clock, but I suggest that we would like to have them because, after all, the main purpose of these meetings is to try to determine the price increases and also the volume without significant price increase.

Co-Chairman Mr. BASFORD: Mr. Olson, next week we have a number of witnesses appearing from the Department of Agriculture to answer questions along the lines of your inquiry.

Mr. BRYCE: Yes. They have official figures on price and volume indices.

Mr. OLSON: I understand that, but we have before us now an indication that net farm income appears to be 42.2 per cent higher in 1966 than it was in 1965. I think we had better reduce this to what may have happened in so far as prices received by farmers are concerned, or determine if there is an enormous increase in volume without any increase in the prices of these commodities. It should be separated out. I think that is all for the moment.

Co-Chairman Senator CROLL: Mr. Bryce, would you look at No. 10?

Mr. BRYCE: Yes, sir.

Co-Chairman Senator CROLL: That covers the municipal, provincial and federal fields, does it not?

Mr. BRYCE: Yes.

Co-Chairman Senator CROLL: Would you just define in any way you like those fields at those levels? Take three or four examples of each so that we can see that we are thinking about the same thing.

Mr. BRYCE: I can give you for 1965 what makes up that total. I am not sure that I have the subsidies here to take off it, but in 1945 the total of the federal taxes...

Co-Chairman Senator CROLL: In 1945?

Mr. BRYCE: I am sorry; in 1965. In 1965, out of this total that is shown here of $7,172 billion-odd, the federal taxes are $3,247 billion.

Co-Chairman Senator CROLL: From what sources?

Mr. BRYCE: Customs, $665 million; Excise duties on spirits and tobacco, $431 million; Excise taxes, mainly the general sales tax. $2.129 billion; and then there are some odds and ends that total $22 million.

On the provincial side there is a longer list. There is amusement taxes of $33 million; corporation taxes—not profits taxes but miscellaneous taxes—of $28 million; Gasoline tax, $661 million; Licence fees and permits, $45 million; Motor vehicle licences and permits, $149 million; Miscellaneous taxes and natural resources, $214 million; Real property taxes, $11 million; Retail sales taxes, including liquor and tobacco, $835 million; and then miscellaneous items of $128 million. That is roughly $2\frac{1}{4}$ billion, as compared to the $3\frac{1}{4}$ billion for the federal side.

At the municipal level the statistician has included here the real property tax as an indirect tax rather than as a deduction from income, in the way they do income tax. This is not the legal definition of what is a direct and an indirect tax, but it is what they use for statistical purposes. The bulk of the municipal one is real property taxes of $1,755 billion, and then there is a lot of other small things.

Now, the subsidies to be taken off that, are some $310 million. I do not know whether you want any indication of what those are, but there is the freight assistance on western seed grains, there are hog premiums, the Agricultural Stabilization Board payments, assistance on storage of grain, and miscellaneous ones of an agricultural nature, and then payments under the Emergency Gold Mining Assistance Act, the Maritime Freight Rates Act, the coal subventions, and then another...

Co-Chairman Senator CROLL: What do they amount to in total?

Mr. BRYCE: The agricultural ones run to $125 million, and these others to $134 million, making a total of $259 million for federal subsidies. The provincial subsidies total $51 million, and they bring the total to $310 million, which brings the net figure here to $7,172 billion.

Mr. SALTSMAN: Referring to Item 1, do you have a breakdown between wages and salaries, or a breakdown between production labour as against administrative and sales labour? That would give us, perhaps, a more accurate picture of what is going on.

Mr. BRYCE: I doubt whether we have a meaningful division of that. The boundary line is a pretty difficult one to draw. I would hesitate to say where in the Government service we ought to daw that line. In operating a factory you can get an idea of what your production labour is and of what your administrative labour is, but what do we do about an airport, for instance, and things like that? It is not an easy line to draw.

Mr. SALTSMAN: It would make the figures a little more meaningful if you come to compare a distribution of income within that category because I presume that it would include a wide variety of income types, would it not?

Mr. BRYCE: Yes.

Mr. SALTSMAN: And there has been some comment recently that our distribution costs have been increasing faster than our production costs—

Mr. BRYCE: I am sorry, but I cannot hear you.

Mr. SALTSMAN: Do you want me to repeat what I said?

Co-Chairman Senator CROLL: Yes.

Mr. SALTSMAN: There has been some comment made that our distribution costs have been increasing at a faster rate than our production costs, and it would have been interesting to look at figures to see if this is true or not.

Mr. BRYCE: I gather the committee is going to go into that with respect to particular industries.

Co-Chairman Mr. BASFORD: Dr. James has somebody from the Department of Labour preparing some statistics for us. I think Dr. James might point out your question to that individual.

Mr. SALTSMAN: There is going to be an attempt to get this type of information?

Co-Chairman Mr. BASFORD: I am not sure that he will be able to give you the type of breakdown you want, but Dr. James will direct your question to the person he is conferring with in the Department of Labour to see if he can answer your question. May I ask Mr. Bryce just what were the factors causing the unusual rise in corporation profits before taxes between 1963 and 1964?

Mr. BRYCE: I am sorry, but I would not want to try to guess at that quickly, sir. There was quite an expansion, of course, in the total in those years, and at certain stages in the business cycle profits do tend to go up rapidly. If you look at the chart on the page that follows the tables, the first chart shows gross profits per unit of output, and you will see that during the expansion from 1961 to 1965 there has been quite an increase in the gross corporate income—that includes both profits and capital cost allowance. There has been quite an increase there as we move up the business cycle phase. Then of course output itself has been going up, so you have both those at work.

Co-Chairman Mr. BASFORD: Thank you. Any other questions?

Senator CARTER: Mr. Chairman, perhaps I did not quite understand what Mr. Bryce said about table 5 at line three, showing the figure of 6.6 as compared with 7.1 in line 9, which would indicate that over the period the rate of profit has been fairly stable, although there must have been fluctuations to have 15.1 last year; but is it a fair statement that 6.6 represents a fairly stable rate of increase?

Mr. BRYCE: No, the profits fluctuate more than most things in the economy and that is illustrated in the chart to which I was referring. It tends to fluctuate with fluctuations in output. That chart shows that while wage costs have been going up fairly steadily, with some variation, of course, profits have been fluctuating around that line.

Now, those are also gross profits. Capital cost allowances are a reasonably steady element within that again, so that the corporation profits item fluctuates even more than that gross total does, in proportion.

Senator CARTER: Is that figure in line three before taxes?

Mr. BRYCE: That is right, sir.

Senator CARTER: Are the taxes referred to in line three substantially the same?

Mr. BRYCE: The corporate tax and personal income tax are not shown in the table at all. They are transferred from those who get these incomes to the Government and do not show up in market prices. We will see that when we come to table 9.

Senator CARTER: So you do not have any figures to show what changes have come about that have come into profits?

Mr. BRYCE: We can easily provide this, if you wish. I do not think we have them here. However, we have some for recent years. We have corporate profits

before taxes and before dividends to non-residents for 1965 here at $5,199,000,-000. The income tax liabilities from that, $2,164,000,000. In other words, this was roughly 40 per cent. It includes, of course, small corporations where the rate is lower than the general rate, and includes both federal and provincial tax. That leaves corporate profits after taxes at $3,035,000,000. Out of that there are dividends paid to non-residents, $751 million. So that corporate profits retained in Canada are $2,284,000,000. The dividends paid to Canadian persons are $796 million. The charitable contributions paid by corporations are estimated or recorded at $44 million, which leaves undistributed corporate profits of $1,-444,000,000. That is what is left in the hands of the corporations.

Now, I can give you that last item over the half dozen years, if you wish.

Senator CARTER: I would not want to take up the time of the committee. Perhaps it could be provided and printed; it might be useful.

Co-Chairman Mr. BASFORD: It could be provided later today, or next week.

Mr. BRYCE: I think perhaps I could provide to the members, sir, the tables of national accounts, income and expenditure 1965 which is a very convenient set of references. We will get copies from the Bureau of Statistics for the committee. What I am referring to is table 50.

Senator CARTER: What you have said has no relationship between 13.8 in line 10 and 15.1 under 1963 and 1964?

Mr. BRYCE: Only in so far as indirect taxes are increased. They make it more difficult for businesses to sell at a higher price. I am sure that if the indirect taxes on liquor were reduced, the profits of the distillers could be increased. How much competition there is, of course, is a matter of judgment, but that is an extreme example. Other things that are sold subject to substantial indirect taxes would have some of the same effect. We often wonder, if it is a question of whether we increase or decrease the sales tax, let us say, what that will do in fact to prices and hence to profits, because it certainly takes time for prices to respond to such changes. There are inventory profits involved and a whole complex of other things.

Co-Chairman Senator CROLL: I am wondering if you have come to any conclusion, because we are all interested, from the historical end of it.

Mr. BRYCE: I am talking about historical "wondering". From time to time in the past when there have been occasions to change the sales tax this has always been a question that arises in our minds, how quickly or how slowly is it likely to be reflected in market prices and what are the transitional effects of doing so.

Co-Chairman Senator CROLL: But perhaps what the committee, and certainly I would like to know, is, when you raise the sales tax say two cents or two per cent, whatever it may be, have you ever followed it up to find out what the consumer finally pays, whether it is two cents to him, or does it come to five cents in the end, or possibly six cents. Have you followed it through?

Mr. BRYCE: It is terribly difficult to follow it through. There have been studies made of the incidence and effects of various Canadian taxes. I regret to say I did not bring them along this morning or refresh my memory yesterday on them. I think it depends on the length of time you allow. For example, in our manufacturers sales tax, if we increase the manufacturers sales tax by one per cent, one point, the initial impact of that of course is on those who buy from the manufacturers. The dealers will have some inventories they got at the lower rate of tax; so what is their policy going to be in disposing of that?

Then it is alleged that the normal mark-ups will apply and that you will get a mark-up on that additional sales tax at the manufacturer's level. On the other hand, I would judge that mark-ups are by no means rigid over longer periods. You get competition in the process of distribution as well as in the process of production. If we are looking at periods of half a dozen years or

more, I would have thought that you would get some change there in the mark up. This is a point that might well be worth taking up with experts on distribution who may appear before the committee.

Some of the arguments for having a retail sales tax, rather than a manufacturer's tax, is that you do not get into these problems.

When the provinces change their sales tax at the retail level, you do not get into this question of whether it alters the mark-ups, whether it is passed on, more or less, between one level of distribution and the other.

On the other hand, you have many other questions in a retail sales tax.

Co-Chairman Senator CROLL: What I understand you to say is this, that at the manufacturer's level we impose a tax, he takes his mark-up on it, and passes it on to the retailer, who takes his mark-up on it, and finally it gets to the consumer; so that in effect what they are doing is a mark-up on the increased tax, whatever it may be.

Mr. BRYCE: Senator, I think the problem is this. Our tax has been at this level for many years. If the existence of it has led to higher incomes in the wholesale and retail distribution, you would expect that, over a period of years, to have some effect on the competition within the distribution process. I would think that those mark-ups would not stay rigid through a period like that. I think the long-term effects are apt to be less certain along those lines that you mention, than the immediate effects, because competition between various distributors is apt to even out these mark-ups to what are economically necessary to support that process in the economy.

I will see if I can find any studies on this matter, sir, that will be helpful.

Co-Chairman Senator CROLL: It is not the federal Government alone, it is the provincial government direct tax, too. It is the combination of these that affect it.

Mr. BRYCE: Yes, though they do not give rise to quite the same problem, because they apply them right at the final stage in the process. By law, they are restricted to that.

Mr. BELL: May I ask Mr. Bryce, if he has not already said so, with respect to these tables, why farm income is treated separately? Why, of all the sectors of our economic life, are farmers segregated in this way? Is this traditional, or has farming got greater ramifications in our economy?

Mr. BRYCE: One could lump items 6 and 7 together, I suppose, but it has been traditional in our national accounts to show agriculture separately. First of all, that is because it has been a matter of great public interest in the past to show it separately. Secondly, you will notice that it fluctuates in a way that the other elements do not fluctuate. For example, between 1960 and 1961 it fell by 15 per cent. Between 1961 and 1962 it increased by 48 per cent. These are far greater fluctuations than the other elements in the economy have; and so I think there is considerable value in making clear what is going on by taking this volatile and important element and showing it separately.

Co-Chairman Mr. BASFORD: If there are no further questions, we will go on to table 6.

Mr. BRYCE: Table 6, sir, is similar to table 2. It is a percentage distribution of the items in table 5. There is quite an interesting point to observe in this table. If you look at line 1, you will see a remarkable stability in the percentage of the gross national product going into labour income. It started out in 1949 at 49 per cent. It has ended up in 1965 at 50.1 per cent.

It fluctuates somewhat there, but the stability is remarkable, when you consider all that has been happening through this period that affects labour's position in the economy, and things of that nature.

This is an economic phenomenon that has been observed in other countries and in other periods. It is really quite surprising, I would say, that this proportion should be so stable, and the proportion between this income and the net national income at factor cost, for that matter.

The relative decline of the farm income has had some influence on line 1; and the smaller decline but still a decline, of unincorporated business income has some influence.

The thing which is surprising, and, I suggest, important, is the division of the gross national product between labour and capital, so to speak, as a reasonably stable proportion, over the long run—a remarkably stable proportion—and it shows up here in these figures.

It changes from year to year as between labour and capital, as is evident in the chart to which I referred a few minutes ago, the first table appended to these tables, of wage costs and gross profits per unit of output.

As you can see from that chart, the profit element fluctuates around and below that line for wages costs per unit of output. This relative stability in the relationship is one of the quite interesting observations out of economic statistics, which may have some bearing on what one can hope for as a result of changes in the labour market and efforts to raise wages, and things of that sort.

I offer it to you at this time simply as a statistical observation, without trying to draw too much in the way of conclusions for it. It is a phenomenon that has been noted by economists a good deal in the past. They told me they had a conference on it in 1961 in the United States, to see what inferences and implications could be drawn from it.

That is the chief item, sir, in this table, that I think is worthy of note.

The other thing of course is the way in which the proportion of profits has varied somewhat in the short term.

Part of the variation there is between the capital consumption allowances, which have been a higher proportion since 1955 than they were before. I explained that point earlier on.

The decline of the proportion going to farm operators shows up clearly in these percentage tables—with the exceptions of course, of the fluctuations, say between 1961 and 1962, and between 1965 and 1966, here.

I do not know that there are any other things I need draw attention to in this table.

Mr. Cameron: Mr. Bryce, you were saying that you were not going to attempt to draw any conclusions from the remarkable stability of the share of total wealth production that has gone to wages and salaries. I would like to draw a conclusion and see whether you would agree with it.

Would you not say, Mr. Bryce, that this reveals the fact that there has been a determined—and, so far, completely successful—effort to contain the share that wages and salaries draw from total wealth production, despite an immensely rising wealth of productivity, and that in itself may be one of the causes of the problem that we are facing here?

Mr. Bryce: I find it hard to say that there has been a determined effort on the part of the thousands of producers who are involved—the tens of thousands.

Mr. Cameron: The evidence is here on the sheet of paper we have in front of us.

Mr. Bryce: This happens in other countries as well.

Mr. Cameron: Yes.

Mr. Bryce: I think what lies behind this is that prices, according to the economic analysis we used to use when I, at least, went to university, and I suppose it is still used, are determined essentially by cost, both marginal cost

and average cost and things of that sort, and wages and salaries are much the biggest element in the cost. While for one firm, one particular business, there are costs of materials and such involved as well, when you look at the economy as a whole, and the general level of wage and salary rates go up, then so many costs rise, and these are reflected in the prices charged by so many people, that the whole price structure tends to rise more or less rapidly according to the way wage and salary rates rise.

I think this is probably the nature of the explanation, but there are so many detailed factors that enter into it that that is a pretty rash generalization.

Mr. CAMERON: But it does not get around to my question, Mr. Bryce, that labour's share of total wealth production has remained almost static. In fact, I imagine it goes back to the stage that existed long before 1949.

The way in which labour's share has been held static is to offset every attempt to increase real wages, and, apparently, quite successfully.

Mr. BRYCE: Real wages have gone up. There is no doubt about that at all. This is just the share of the total value of production here.

Mr. CAMERON: Yes.

Mr. BRYCE: Now, one must bear in mind that the total value of production goes up by reason of productivity, which arises partly from greater skill, greater training of labour on the one hand, and from more and better capital and better management on the other.

There is contention, no doubt, as to who is going to benefit from the results of this. This is why I think the stability is remarkable, when you think of all the things that have contributed to productivity from one side and on the other of the growing importance of collective bargaining and organization changes in the labour market.

I cannot find a satisfactory explanation for this stability.

Mr. CAMERON: It indicates, Mr. Bryce, that the price of this remarkable stability in this particular statistical summary has been a growing instability in labour relations, and now in the price structure of this country. Is that not so? Is this not the price we pay for this stability?

Mr. BRYCE: I do not think I would want to follow the argument that far, Mr. Cameron.

Co-Chairman Mr. BASFORD: Senator Thorvaldson.

Senator THORVALDSON: Mr. Chairman, in regard to Mr. Cameron's remark, and the argument that is involved, if you look at line 6, I think that indicates, does it not, a rather serious situation; namely, the decline of farm income. At least there has been stability in regard to wages and salaries, and there has been remarkable stability in regard to corporation profits, but line 6 does indicate a situation which is the reverse of that: namely, a great reduction in the percentage that the farm operator receives.

I just want to present that as part of the whole picture, and there is a much more serious picture indicated there as to farming population than there is in regard to labour. At least there has been stability there, but there has been instability in regard to the farming operator.

Mr. CAMERON: Is this not because the farmer has to fight on two fronts?

Co-Chairman Mr. BASFORD: Mr. Bryce, do you want to comment on Senator Thorvaldson's remarks?

Mr. BRYCE: I think, sir, we covered this point earlier in the discussion of the points raised by Mr. Olson. There has been a decline. I was hoping that perhaps I had the figures here in the number of farm operators. There has been a great increase of productivity of the farmers through this period, and I think a considerable increase in income per farm operator through the period, but there

is no gain-saying the fact that farm operation is a considerably smaller part now of the national economy to what it was in 1949.

Mr. OLSON: Mr. Bryce, I would like to ask you whether the percentage of the total population included in Item 1 has gone up from 1949 to 1966, and, if so, do you have the figures on it?

Co-Chairman Mr. BASFORD: Could you repeat your question, Mr. Olson?

Mr. OLSON: Yes. Has the percentage of the total population who get their income from wages, salaries, and supplementary labour income, included in this Item 1, has that percentage risen significantly since 1949?

Mr. BRYCE: I am sorry, I do not have the 1949 figures here. However, in 1952 there were 891,000 engaged in agriculture in the civilian labour force. In 1965, there were 594,000.

Mr. OLSON: I was referring to Item 1. Do you have the figures there of the population whose income is accountable in Item 1?

Mr. BRYCE: We have in Table 8 an index of that. If you look in Table 8, line 8, that gives the figures relative to 1949 for the paid workers off the farms.

You will notice that that has risen from 100 to 179 through this period.

Mr. OLSON: Thank you.

Mr. BRYCE: Then line 5 gives the rate at which the total non-farm employment has risen, including not only the paid workers but those working also on their own account.

Mr. OLSON: This would indicate, then, Mr. Bryce, that there are a larger number, both in absolute and in relative terms, receiving this so-called stable income. In other words, relative to the total output, they are getting less than they were in 1949.

Mr. BRYCE: No. We are only talking in Table 6 about the proportion of the total income. Of you look back to Table 5, the amount of labour income has gone up rapidly, and, if you look at Table 8 again, the average wages per paid worker, in line 9, have gone up from 100 to 199.

Mr. CAMERON: It seems a much larger pie.

Mr. OLSON: I am not arguing that point. The point I am trying to get at is this: in trying to relate this to Table 6, for example, we start out in '49 with 49 per cent of the total G.N.P. assigned or attributable to these wages, and we get over to 1965, the first half of 1965, and it is 49 to 50 per cent. I agree with your argument that it is relatively stable, but there are more people getting this percentage.

Mr. BRYCE: Yes, definitely.

Mr. OLSON: And, you had suggested that the farm production, the total number involved in farm production, has gone down substantially, and, if you look at the table on net income from non-farm unincorporated businesses, that also has gone down.

Would you tell us where the increase is?

Mr. BRYCE: Do you mean what has gone up?

Mr. OLSON: No. Where is it taken up, insofar as it can be related to population numbers?

Mr. BRYCE: Well, sir, part of the increase is in indirect taxes, as you see in line 10. A part of the increase between 1949 and 1955 is in those capital consumption allowances; and part of the increase is in the rent, interest and miscellaneous investment income which has grown from 4.3 per cent in 1949 to around 7 per cent at the beginning of this decade, and it has remained around that figure or has declined slightly in the last several years.

Corporation profits here have remained reasonably stable around the 9 and 10 per cent level throughout the period since 1955.

Mr. OLSON: On table 8, and I am not going into it too much until we come to it, but in line 2 which deals with the labour force employed you show a figure for 1966 of 144.7. I am not quite sure what that means. This figure of 144.7 is the same index equalling 100 in 1949?

Mr. BRYCE: Yes, the numbers of people employed.

Mr. OLSON: This surely does not mean there is a 44 per cent increase in the numbers receiving the same proportion of gross national product?

Mr. BRYCE: Perhaps we could leave that until we come to it. I think it is cleared later on in table 8.

Mr. OLSON: But to clear my mind for the moment does this mean that there is a 44.8 per cent increase in the labour force?

Mr. BRYCE: In the number employed in the labour force, but there has been an increase in the total population as well. There has been an increase in the numbers receiving other forms of income. Agriculture has gone down and own-account workers have gone down. There has been an increase in those receiving interest, dividends, royalties or rents as well.

Mr. OLSON: Will your explanation later include an explanation as to how many additional people are involved in receipts outlined in this item 1 with respect to their share of the gross national product?

Mr. BRYCE: I think we will come to some of that in table 8 when we come to it.

Mr. SALTSMAN: If I may pursue Mr. Olson's line of questioning a little further, I think what he is worrying about is whether there has been any change in the percentage of the population gainfully employed, as a percentage. Instead of an increase in total numbers which can be accounted for by the increase in the population itself, has there been an increase in the labour force participation in proportion?

Mr. BRYCE: There may have been an increase.

Mr. SALTSMAN: Would not this by inference mean, if we look at section 1 on table 6, that from the point of view of the family, although the allocation to the individual has remained stable in terms of wages and salaries, from the point of view of family income as a proportion it has gone down during this time? As the labour participation increases, and I presume all those participants make up a form of family unit, the total amount accruing to a family unit would be less as a percentage of the gross national product in 1965 than it was in 1949? Do you follow what I am saying, or should I try to make it clearer?

Mr. BRYCE: I think I am following what you have in mind. Perhaps I am not quick enough to see whether there is some other relationship at work here, which makes me hesitate to concur in it. The total output is going up, and of course the main thing enabling it to go up is the increasing number of workers. This is a fundamental thing in the economy. In addition, of course, we have increased productivity which we try to express in total terms in table 8. As a result they are getting increased wages. Again that will come up in table 8. Perhaps it would be better if we turned to table 8 in a moment and discuss these points there.

Mr. SALTSMAN: Instead of dealing with aggregate figures, this line deals with a percentage which seems to remain very stable. This has no bearing on the labour force, that is on the salaries of the labour force, but it has a bearing on the percentage of wages going to the labour force. The labour force as a percentage of the population has increased so that at the same time, I presume, the percentage of income going to each family would be less, because more members of a family would now be engaged in the labour force.

Mr. BRYCE: But that has increased our total output as well.

Mr. SALTSMAN: But what I want to draw your attention to is the percentage accruing to the members of a family or the ratio of the distribution to the output.

Mr. BRYCE: The relationship of the number of workers to the total population is largely influenced by the age distribution and after all we must remember that workers have to, in one way or another, support the young and the old who are not working. And then the proportion of the women employed in occupations which we recognize as productive from the national accounts point of view has been going up. In those ways the increase in the labour force has enabled an increased income per person in the population to be gained, but whether that increase goes wholly to those in the labour force or whether it is diverted, for example, through governments to old age pensioners—it may be diverted in that way to people not in the labour force—there are a whole set of influences at work and I rather hesitate to make a generalization without examining it.

Mr. SALTSMAN: If, for argument's sake, the participation of women in the labour force today were at the same rate as in 1949—

Mr. BRYCE: Mr. Rubinoff has the rates here and he can tell you about that.

Mr. SALTSMAN: —would not the figure we have of 51.5 be down? Would not the distribution or the true rate be less than this figure? Particularly if it has taken the increase in population to maintain its relationship to wages and salaries?

Mr. BRYCE: Any reason that increases the number of workers will have that sort of influence. But if the number of workers increases the total product to be divided increases. What is turning out to be stable is the relative share of the growing number of workers to the growing amount of capital and other things going into the value of production.

Mr. SALTSMAN: The point I was trying to make is this: Unless we realize that the labour participation is greater today, we cannot say the individual worker is getting the same share of the rewards of society today that he got in 1949. What I am suggesting is that although a gross amount as a percentage may indicate it has remained stable, in fact it has declined on an individual basis.

Mr. BRYCE: Mr. Rubinoff has been working out the figures here and he can give them to you.

Mr. RUBINOFF: Mr. Saltsman, it would appear that between 1949 and 1965 the overall participation rate is almost unchanged at something around 54 per cent of the population aged 14 and over. This was the result of a number of offsetting influences. As you quite rightly pointed out, a lot of women, and married women particularly, have gone into the labour force and their participation rate has gone up enormously. Recalling from memory, in the last 15 years it has gone up from something like 23 or 24 per cent of the female population to about 32 or 33 per cent. There has been a very large increase. On the other hand, earlier retirements and more school attendance, children staying longer in school, have tended to offset other participation rates of these age groups. By, I suppose, a remarkable coincidence the figure has not changed overall in this period of the last 16 or 17 years.

Mr. SALTSMAN: So the participation rate has remained fairly constant?

Mr. RUBINOFF: Yes, at about 54 per cent of the population who would participate. By convention they have chosen 14 years of age and over. They do not count the children younger than that.

Mr. BRYCE: We have not the figure at hand for the intervening years. It may have fluctuated.

Mr. RUBINOFF: Not by very much though.

Mr. SALTSMAN: Can you offer this committee any explanation for the, I presume it is a little over 50 per cent increase in Item 5—rent, interest and miscellaneous investment income? Where wages have remained stable, that particular item has increased by almost 50 per cent during the period under discussion.

Mr. BRYCE: There are several things, I think, one has to take into account there. First, the accumulation of savings in the hands of individuals—this is individual income rather than corporation profits—the accumulation of savings in the hands of individuals leads to an increase in it. If people are acquiring more assets—houses that they rent out or bonds that they hold, or things of this sort—I guess this would not include Government bonds though, because they are netted out of that—that leads to an increase here. Secondly, in 1949 rents were just coming out of control, as I recall, at that time. You will notice this item went up quite considerably between 1949 and 1950, and it went up again between 1950 and 1955. It was really through the fifties the growth in this occurred. I think rent was a part of it, undoubtedly.

I think the growth in pension plans has been a considerable part of it. This includes the earnings of pension plans which have been building up through that period. It includes such a variety of items that I hesitate to try to put too definite an interpretation on just what it was.

Mr. SALTSMAN: I follow your line of reasoning that these things have increased the total amount, but it is also valid in terms of wages and salaries that we have increased our total amount of workers. Why has one accelerated as a percentage of our Gross National Product and the other remained stable? In other words, it is a question of distribution. Is there something going on in our society where one group is perhaps becoming a little better off because of changes that are taking place, and the other group is merely holding their own?

Mr. BRYCE: One feature that did change there is that interest rates in 1949 and 1950 were low, and they went up during the fifties. So that this would reflect some increase in the level of the interest rates from the war and immediate post-war levels up to the levels of the late 1950's. It reached its peak around the beginning of this decade, in 1961. So that the increase in interest rates from 1949 and 1950 to later has probably been a factor. The increase in rents from the wartime controlled sort of levels has probably been a factor too.

Mr. SALTSMAN: This seems to be the item which has gone up the most. If we are discussing the causes of the increase in the cost of living, would it be a fair statement to say that Item No. 5 we have been discussing has been one of the major contributions to the increase in the cost of living—

Mr. BRYCE: Not recently.

Mr. SALTSMAN: —since it has increased much more than any other item as a percentage?

Mr. BRYCE: I do not think one could say that recently, referring to the figures you have been thinking of, because it has been going down as a proportion. Table 7 will shed some light on that. That shows this item in relation to the units of total output. It shows it going up over the whole period, but not going up significantly in recent years.

Senator MCDONALD: Dr. Bryce, have you or your officials any figures to indicate to us the number of rental units that were available in Canada per capita in 1949 compared to the number of units that were available in 1965? In other words, have you not a tremendous number of people today paying rent for living accommodation that 16 years ago were living in their own homes? In other words, you have moved from single dwelling units into multiple dwelling units?

Mr. BRYCE: Senator, there is no doubt our housing stock has increased through this period, but I would hesitate to express an opinion as to whether it has increased in relation to the population and number of family units. This item includes imputed rents as well as actually paid. If you own your own home they take this into account in trying to evaluate this item.

Co-Chairman Senator CROLL: Mr. Bryce, look at Item 1 and Item 5. The figure that shook me a bit was the one that you gave about the income to insurance companies, which indicated to me you were talking, if you were, about the money that was coming in by way of premiums and as a result of investment and as a result of pension funds and other such things that they were paying, and it was quite a sizeable figure. Then it occurs to me that the people in Item 1, to a great extent, are the people in Item 5.

Mr. BRYCE: Well, sir, there is no doubt that a great many of them are the same people. What I referred to there was the investment income of insurance companies and pension funds that is reflected here; and, of course, that accrues to millions of policy holders and people under pension plans.

Senator THORVALDSON: Similarly, would it not be right to say that literally millions, I would say, of wage and salary earners are participants in Item 5—namely, in income from rent, interest, and so on? In other words, they would not be prepared to say that that was simply the part of our society that receives interest and rent, and so on? It is our whole society; would not that be correct?

Mr. BRYCE: Yes.

Mr. CAMERON: Have you any figures on the percentage of our population that would be included in the rent and interest receiving class?

Mr. BRYCE: I think there were some figures prepared by the Royal Commission on Banking and Finance. They did a survey of the assets held by various people.

Mr. CAMERON: Yes, and the bulk of the assets was in very few hands.

Mr. OLSON: Mr. Chairman, I would like to ask Mr. Bryce if old age pensions and other pensions paid by private pension plans, and unemployment insurance and payments of this kind are included in Item 1.

Mr. BRYCE: No, sir. These are the incomes arising out of production, and not transfer incomes. They are shown elsewhere.

Mr. OLSON: Which item would they be in?

Mr. Bryce: The Government transfer payments we will come to in Table 9 later.

Mr. SALTSMAN: I have a question in clarification of Item 5. You discussed whether the payment on the national debt was included in rent, interest and miscellaneous investment income, and I think you said the payment on the national debt was deducted from this.

Mr. BRYCE: It is not included in Item 5.

Mr. SALTSMAN: That is not included? That is deducted?

Mr. BRYCE: Yes, that is deducted.

Mr. SALTSMAN: In other words, the figure is reduced by that amount?

Mr. BRYCE: Excuse me; the way they make it up statistically is that they include a lot of items—they take in and add up a lot of items which include, among other things, the interest on the national debt, and then they take the interest on the national debt off because they do not regard that as contributing anything to the gross national product.

Mr. SALTSMAN: Now, the interest on the national debt as a percentage of our gross national product has been declining, has it not?

Mr. BRYCE: I think that that is in the—we will look it up, sir, but I think it has.

Mr. SALTSMAN: I will leave that question with you. The reason I ask it is that I am not sure how the adjustment is made on this. I do not know the figures would look if we take that into account. Would this figure of 6.8 in 1965 be higher if we take the fact that the interest on the national debt was itself declining into consideration? Would the other figure then be higher?

Mr. BRYCE: Yes. Clearly, any one of those figures would be higher if we added on the interest on the national or public debt to line 5. Mr. Rubinoff says he thinks the growth rate has been lower on the national debt than on this item generally, so it would be a higher figure but not growing as fast.

Mr. SALTSMAN: But I mean as a percentage of the G.N.P.

Senator CARTER: I would like to ask Mr. Bryce whether the impact of automation is reflected to any appreciable degree in Items 1, 9 and 11 of Table 6, and if so, has automation, as a factor in the Canadian economy, reached the point where it could be represented statistically?

Mr. BRYCE: I think, sir, it would be better if we take that point when we come to Table 8 in a moment.

Co-Chairman Mr. BASFORD: If there are no more questions on Table 6, we will go to Table 7.

Mr. BRYCE: Table 7, sir, is simply taking the items in Table 5, and dividing them by the aggregate volume of production as shown in Table 3. This tries to show what has happened to these various elements of income in proportion to the volume of the national product, as distinct from its value.

Now, out of this we get the price index of the gross national product in the bottom line, which I hope is the same as the one we had in Table 4. Yes, it is. Then, in each line this shows how it has gone up—how these elements have gone up in proportion to the volume of our national product over the period. I am not too clear in my own mind what sort of conclusions one can reasonably draw from this table, because it brings quite a lot of things together, and you get complicated inter-relationships.

Co-Chairman Senator CROLL: The only conclusion you might draw, I suppose, is if you had your choice you would like to belong to line 3.

Mr. BRYCE: Well, the price of belonging to line 3, sir, is that you have got to save your money.

Mr. SALTSMAN: You have also got to earn the money before you can save it, and not have it taken away from you in increased prices.

Co-Chairman Mr. BASFORD: Are there any other questions on Table 7? If not, we will go to Table 8.

Mr. BRYCE: Table 8 is an effort to give you some things relating to productivity, and related matters. I should say that we put these forward not as being any advanced study of this. This is just what is implicit in our main published figures. The Economic Council, in a reference that it was given and on which it is producing its report next month, is looking into this question of productivity in relation to the movements of incomes, costs, prices and so on, so it will no doubt produce much more studied material than this. But, I thought the committee would like to have this as being what has shown up from a study of the figures as they are published.

The first three lines relate to the economy as a whole. It shows what the real gross national product has been—the rate at which it has increased since 1949. It shows, in line 2, the labour force employed in the economy as a whole in producing it. Then, in line 3 it shows the output per person employed, and how that has grown as a whole over the period, and from year to year.

You will note, for example, that that shows that for the economy as a whole, and over the period as a whole, the output per person employed in any

way in the labour force as a whole has increased by $2\frac{1}{2}$ per cent a year. That rose quite rapidly in the early years. If you measure it from 1955 that figure is only 1.9 per cent. That is to say, it is at about the rate of 2 per cent a year that the output per person employed has been growing in the last ten years.

Now, the problem here is that in studying the economy as a whole we lump in the big change that has been taking place in agriculture, and the changes that have been taking place in the rest of the economy. As we have noticed, the role of agriculture has diminished. Its productivity has increased very notably throughout this period, but it still remains relatively low when compared to the productivity in many other industries.

So, in the next group of lines we take the non-farm economy to see what has been happening there. We take first the non-farm gross domestic product —that is, for this sector, and it is similar to the national product but for a part of the whole—and we compare it with line 5, non-farm employment, and that gives the output per person in non-farm employment which, you will, notice, over the period as a whole has been growing at the rate of 1.8 per cent, as compared with the rate of 2.5 per cent for the country as a whole when you take the farm situation into account as well. If you look at the last ten years you will see that the rate of growth here is 1.4 per cent.

Line 7 gives the total in index form of wages and salaries for the non-farm part of the economy, and you will see that that has gone up from 100 in 1949 to 357 in the first half of this year. The growth rates are indicated to the right.

Taking the paid workers for the non-farms, and dividing that into the other figure I have just mentioned,—what has happened to the average wage per worker in the non-farm economy, which is in line nine, increasing to 199 in the first half of this year, with the rates of increase, shown on the right, these show for the period as a whole the average per worker has been increasing 4.2 per cent. If we look at the years since 1955, that figure would be 3.4 per cent. Again the early years of that period were affected by the Korean boom and the substantial price changes which occurred. With that we can compare the rates of increase in recent years. You will notice that as compared with the ten year period the rate of increase between 1963 and 1964 was 3.9 per cent compared with 4.2 for the 16 years as a whole or 3.4 for the last ten years. In 1965 it was 5.3 over the preceding year 1964. It looks, in the first half of this year, as though the rate of increase has been 5.9 per cent over a year earlier. When you compare that with the output figure in line 4 we derive figures here on the labour cost per unit output. Again, a full analysis of them would require a study of particular sectors, but line 10 shows what has been happening to that over the period as a whole since 1949, and showing the growth in the last several years.

Then "C" below shows five lines that take the private side of the non-farm economy, which is essentially the industrial and commercial segment, excluding the Government and excluding hospitals, health services and welfare services and voluntary organizations. We do that because the statisticians cannot measure the output of the Government or of the hospitals and health services, and things of that nature. We therefore try to exclude that element in the economy whose productivity really cannot be properly measured and who statistically have an increase in productivity of zero for that reason. They just value the output at what it costs to produce it.

When we look at the private non-farm economy we get these figures for the growth in output that are shown in line 11. This is what I might call the industrial and commercial part of the economy. Line 13 is an estimate of the growth in the number of man hours worked as distinct from the number of people employed.

Lines 14 and 15 are interesting in relation to basic productivity in this more measurable part of the economy and answers the senator's question about

automation. It is here that the effects of automation show up, in addition, of course, to the effects on the farm. However, the output per person employed, you will note, has been rising over the period as a whole by 2.7 per cent. If you look at the period since 1955 it is 2.4 per cent. Part of that output has been absorbed in a reduction of working hours. In other words, part of the increased productivity has been taken out in a reduction in hours.

If we look at the output per man hour it has gone up more rapidly, that is, 3.4 per cent over the period as a whole, 2.9 per cent in the past ten years since 1955.

Now, this gives one some idea in rather rough, over-all terms of what has been happening to our productivity and its relation in part "B" to the average wages and salaries per worker employed in the parts of the economy. I am sorry we do not have the figures for "C" for the half year.

Co-Chairman Mr. BASFORD: Mr. Cameron?

Mr. CAMERON: Mr. Chairman, I am puzzled by Nos. 7 and 8, which appear to deal with the same feature. What is the distinction?

Mr. BRYCE: Number 7 is the total wage bill for the non-farm area. Number 8 is the number of paid workers. There is a difference here between non-farm employment and paid workers, and we have compared the wages with the paid workers to get an idea of the average wages per worker.

Co-Chairman Mr. BASFORD: Do I take it that one is a growth in dollars and the other in numbers?

Mr. BRYCE: Number 7 is the aggregate dollars payroll. Number 8 is the number of workers. Number 9 is the dollars per worker.

Mr. BELL: Number 7 is the first half of 1966, is it?

Mr. BRYCE: Yes, sir. That of course is the increase in the aggregate wage bill in the non-farm economy and takes into account the growth in number of workers, which you see immediately below, of 6.4 per cent, as well as the growth in the average wage bill.

Co-Chairman Mr. BASFORD: Have you any further questions, Mr. Cameron?

Mr. CAMERON: No.

Co-Chairman Mr. BASFORD: Senator Thorvaldson?

Senator THORVALDSON: I would like to ask Mr. Bryce what is the real significance in regard to the differences of the figures for 1965 in lines 12 and 13. The figure there is 144.7, and then man hours 129.8. I notice there has been a widening of that from year to year in regard to number 13; that is accelerating.

Mr. BRYCE: That is right. There has been a gradual reduction in the average number of hours worked per week, and changes in the number of part time workers and their relation to the total, which suggests the idea that we have to take both factors into account.

Senator THORVALDSON: What is the significance of the figure 129.8, does that indicate that productivity has been at a reduced rate as a result of the decrease say of hours per week worked, and so on?

Mr. BRYCE: No. Productivity per man hour has increased more rapidly than productivity per person employed. Some of the increased productivity has been taken out, so to speak, by reducing the hours worked per week.

Co-Chairman Mr. BASFORD: Mr. Allmand?

Mr. ALLMAND: Mr. Bryce, in number 10—labour costs per unit output, this has been increasing. How does this relate to the fact that apparently capital has been a greater factor in the cost per unit? We hear that the cost of a product is more and more related to automation or to technology, but here we see that labour cost per unit output is also increasing. Is that on the total cost or is this on a percentage basis?

Mr. BRYCE: This is a relative rate of increase over this period and it applies to the non-farm part of the whole economy; it represents the result both of more skill on the labour side, and more equipment, and perhaps better management, on the capital side.

Mr. ALLMAND: The labour cost itself has been increasing?

Mr. BRYCE: The labour cost has been increasing, that is right.

Mr. ALLMAND: You do not have any figures on the relation to the capital cost per unit output?

Mr. BRYCE: Nothing that is really very helpful, I am afraid. In table 7 you can see something on it, but these figures are so much in the nature of a summary figure that I would hesitate to use them. We do not have good measures of the volume of capital stock in industry to judge how much capital has been used per unit output.

Mr. OLSON: Mr. Bryce, I am puzzled by some figures in table 8 as they relate to some other figures in table 6. For example, item 7 in group B shows or indicates a 12.6 per cent increase in wages and salaries for the first half of 1966 over 1965. On that page it shows a 7.2 per cent increase in the gross national product; yet on table 6 the increase from 1965 to 1966, as a percentage going to this category from the gross national product, is almost the same.

Mr. BRYCE: I think it would be better to compare it with table 5, which shows the gross national product.

Line 1 here in table 8 is in real terms, not in current money terms; and that has increased by only that 7.2 per cent that you mentioned.

If you look at the bottom of table 5, you will see that the value of the gross national product has increased by 11.4 per cent during that period. It is really with that that one should compare this increase in the total non-farm wages and salaries. There you see it is an increase of 12.6 per cent, compared with 11.4 per cent.

Mr. OLSON: That also follows, I presume, for the average annual increase for the total period?

Mr. BRYCE: Yes.

Mr. OLSON: It is 7.8 per cent for wages and salaries. We only show 4.6 per cent for real gross national product, and yet again the percentage of the total gross national product going into this category remains the same.

Mr. BRYCE: That is right, but if you look at the money value, the way the gross national product has increased, it has been 7.5 per cent over the period.

Mr. OLSON: Thank you.

Co-Chairman Mr. BASFORD: Are there any further questions? If not, we can turn to table 9.

Mr. BRYCE: Table 9 is of much more direct concern to the Department of Finance, as you can imagine—and, I suppose, to Parliament.

Here we have tried to bring together in one large table, the revenue and expenditure of Governments, separating the federal Government from the provincial and municipal governments, which are lumped together.

We have presented these on the national accounts basis, that is to say, not in terms of the public accounts as put out by either the Government of Canada or the governments of the provinces, but as those adjusted so as to show on a comparable basis their effects on people's incomes and receipts and payments.

We publish these now in the budget, with a reconciliation between the public accounts and these accounts. They are in the budget for last March, at the end of the budget speech.

I wished to make this explanation, so that no one would seek to compare these directly with the public accounts figures.

We could first, perhaps, look at the revenue figures which are given here, and then go over to the expenditures on the next page. I ought to make it clear that these figures exclude Government business enterprises—such as, on the provincial side, Ontario hydro and Quebec hydro; and on the federal side, our crown companies and such. We do treat the Post Office, however, as a business enterprise and exclude it from these figures. It does not have a great effect on balance, since it mainly pays its way.

We treat the C.B.C., however, as a Government department here, as it is very largely paid out of Government appropriations. That is the reason.

These accounts include such things as the Old Age Security payments and receipts and the unemployment insurance contributions and benefits. So it gives you a comprehensive account of the Government's operations, except in so far as it is running business enterprises that largely finance their own way.

The first part of the table shows the revenue picture, separately for the federal, provincial and municipal governments; and then together. If you look at the total revenue, you will see how the total revenue of all the governments has increased, on this basis, from roughly four and a quarter billion dollars in 1949 to $17.8 billion in 1965; and in the first half of this year the rate was $19.1 billion.

We have put down, at the very bottom of the sheet, the revenues from the Canada and Quebec pension plans. These are not treated by the statisticians as the revenues of either the federal or the provincial government. In the case of the Canada Pension Plan, they come into the federal Government, but we lend them to the province. That is why they are shown separately here, where they are. They have been taken into account when you think of the Government sector of the economy as a whole.

You can see here the rates of growth in revenue over the period as a whole. For all governments combined, they have been 9.3 per cent.

In recent years, you will notice, the rate of increase has been higher than that, but diminishing from 1963-64 down to the first half of this year.

You will notice that the rates of growth are substantially less for the federal revenues than for the provincial and municipal revenues. This reflects the facts that were noticed so much the week before last when we met with the provinces here on the general fiscal situation.

In the past 10 or 12 years, the federal expenditures have been increasing. Those figures are on the next page and we will come to them soon.

The federal revenues, however, have been increasing more rapidly in relation to expenditures than those of the provinces. For the past 10 years we have been reducing our basic personal income tax, in order that the provinces could increase theirs. You will see that reflected in the first line of the table for direct taxes on persons. You will notice that the rates of increase in recent years have been declining for the federal revenue, and they have been increasing for the provincial revenue. The provincial rate of increase is above the long-term one, and the federal rate of increase for the last two years is below it.

These rates of increase take into account, of course, the rather complex effects of the income tax exemptions and rates, and progressive rates. This shows the way in which they balance between federal and provincial has been changing recently.

First, we have there the direct taxes on persons, then on corporations, then we get down to the indirect taxes that we spoke about earlier, to which we have added here the withholding taxes, which are basically taxes on non-residents. Then comes a pair of lines for the non-tax revenues. These are interests and

profits of Government owned businesses, as they accrue. They also include employer and employee contributions to social security—things like unemployment insurance, workmen's compensation, and so on.

They also reflect the Government's own pension funds for its employees.

This finally shows the transfers from the federal Government to the provincial and municipal governments as part of their revenues. This is really a convenient way of bringing together all the Government revenues and showing their rates of increase, over the period as a whole and in recent years, to compare with that of the private sector. Part B of the Table over the page does the same thing for expenditures. I should just explain the way in which we have divided expenditures. It is not by purpose but by nature.

The first group are expenditures on goods and services. These are the things that are bought directly, either by employing people, engaging professional people or by buying goods that are used in government operations such as defence operations or the operation of airports, etc.

The second item is the interest on the Public Debt. There are two different levels there.

The third item is transfers to persons. These are the transfers made directly, for example, of old age pensions, unemployment insurance benefits and so on, on the federal side, and assistance of one kind or another, for example, old age assistance and so on, on the provincial side.

Payments that we share with the provinces are shown under the provinces and municipalities. For example, the Canada Assistance Act payments would be under provincial-municipal here, our contributions having been taken into account in the transfers to the provinces under the previous page.

The next two lines are transfers to businesses, largely those subsidies that I mentioned in talking about the indirect taxes and subsidies in the gross national product page. They are shown here in terms of the government accounts. Finally, for the federal government here, we show the transfers to municipal-provincial governments that we showed as revenues to the others on the other page.

That leads us down to the total expenditures near the bottom of the column, the set of three lines, and their rates of increase, and then, finally, to the surplus or deficits as shown in the bottom three lines. First, the federal ones: a surplus on this national economic accounts basis for the first three years, illustrated up to '55; then a series of deficits to '63; then, gradually, building up a surplus in the national economic accounts for the last several years, that surplus diminishing in the first half of this year.

In the case of the provinces and municipalites, it is normal for them to be borrowing for capital purposes, and this normally shows up in a deficit on the national accounts basis for the provincial and municipal levels of government, and you will see here the magnitude of this and how it is varied through this period.

When you add it altogether, you find that during the upswing from 1961 we have moved from a combined deficit in these national economic terms to a combined surplus of about a quarter of a billion dollars in the calendar year of 1965. This has been slightly reduced in our direct accounts in the first half of this year, but it has been powerfully reinforced now by the collection of the pension plan contributions which are then provided as loan funds to the provincial governments or, in the case of Quebec, put into the market in a complicated way.

I have hastened, Mr. Chairman, so that I could just explain that table before you reached one o'clock.

Co-Chairman Mr. BASFORD: We will continue with this this afternoon. The in camera meeting that I mentioned earlier will be held at 2:15 today. I estimate that it will last 15 minutes. This is simply to deal with some housekeeping matters, and the Committee will then resume its public session at 2:30.

For the benefit of those on the steering committee, it will meet at the end of today's afternoon session, at 5:30 or 6 o'clock. For the benefit of the gentlemen of the Press, any decisions taken at the steering committee meeting are not announcable until they are reported to the full committee.

Yes, Mr. Allmand.

Mr. ALLMAND: I wonder if it is possible for us to get these briefs and memoranda from people who are going to be our witnesses before we actually hear them? It is difficult to prepare questions on a brief or to go through it fairly well while the gentleman is reading it. It would be better if we could get briefs beforehand.

Co-Chairman Mr. BASFORD: Yes. Dr. James is aware of this problem and has endeavoured, where possible, to do this. The officials of the Department of Finance were understandably very hard pressed with other things in having the statement ready for this morning, let alone in time to have it mimeographed for distribution.

Dr. James, however, will endeavour to have briefs prepared in advance where possible.

—Upon resuming at 3 p.m.

Co-Chairman Mr. BASFORD: The meeting will come to order.

We left off this morning with Mr. Bryce having completed his discussion on table 9. Are there any questions arising out of that?

There being no questions, we will turn to table 10.

Mr. BRYCE: Table 10, Mr. Chairman, is really an indication of the sources of the savings required to finance business investment. As I said earlier this morning, the investment made by government in capital assets is treated simply as part of government expenditures generally and is financed as part of government expenditures, but business expenditures are normally financed from a number of sources, and this table shows what they are. The principal one shown in the top line is the amount of the capital expenditures of these businesses and includes the value of the physical change in inventories which has to be financed from some form of savings. The first source of financing is, of course, the gross saving of business itself. This includes both the capital cost allowances which it has accumulated or is accumulating during the year, and the retained net profits that it has after tax and these two added together, together with some valuation adjustments are enough to amount to the figures shown. Then in addition to that we have the personal net saving which is shown in line 1 here. This figure jumps around a bit for the same reason that the agricultural income figure jumped around. It is considerably affected by the savings that the farmers make when they get large crops and accumulate inventories of them, or when they receive payment from the accumulated claims on the wheat board arising out of grain they have sold.

Government saving appears in line 3. This is taken from the final lines of table 10 to which has been added in the first half of 1966 the accumulation of the Canada and Quebec pension funds made available either directly to provincial governments or through them or through the caisse de depôt in Quebec to those who require savings in one form or another.

Then finally we have in line 4 the savings available to the country as foreign investment which again, by definition, is equal to the deficit in our current account on the balance of payments. We have to finance in terms of

foreign exchange whatever surplus in imports and other things require payment in foreign exchange, that is whatever surplus there is over the proceeds of exports and other current receipts. That is represented by the figures in this line and constitutes the savings available to Canada from outside of Canada. You will notice this has been a fairly substantial figure throughout this period with the exception of 1949. There were one or two intervening years in the early 1950s when it was negative as well.

In mentioning these sources of saving to meet the capital investment of business, this does not mean they go directly into business financing. It may well be that there are all sorts of interrelationships here, but these are the net contributions made by these various sectors of the economy to the total pool of savings which flows through various channels, and then the business capital requirements are met out of that pool. Some of those may go through a whole series of institutions, dealers and other things of that nature. This is an indication of where we get the savings necessary if we are going to make capital expenditures on the scale on which we have been making them.

It is interesting to observe how substantially these savings have grown in recent years and where the growth has occurred. I leave out of account the abnormal growth in the last half-year of personal savings because that is tied in with what we have been discussing this morning, with the balance of saving on crops in agricultural figures. The business savings have grown and we have seen the components of that. Personal savings are at a fairly high level.

If we take out of the personal saving the change in farm inventories, we find that personal saving by individuals amounts in 1965 to about 8.2 per cent of personal disposable income, which is a fairly high ratio in comparison with recent years, and it is considerably higher than the ratio currently prevailing in the United States. So you will see this is a way in which Canadians themselves as individuals and through pension funds and insurance arrangements and such are helping to finance the high level of capital investment that is going on in the country.

I think those are the main points I would make in connection with that table.

Mr. OTTO: On this question of personal net saving, No. 1, you said this includes some of the crop on the inventories of farmers; is that correct?

Mr. BRYCE: Yes.

Mr. OTTO: Would that be identical then to the profits of a business?

Mr. BRYCE: To the retained profits.

Mr. OTTO: So that there really is not that discrepancy between 1 and 2 except in the farmer's case he calls it profits and you call it net savings.

Mr. BRYCE: Yes.

Mr. OTTO: Have you made any difference between what you would consider his income or what we might call his hourly wage and undistributed profits in his case?

Mr. BRYCE: No, in the case of a farmer we cannot divide him into two persons.

Mr. OTTO: A good part of that should belong to line 2.

Mr. BRYCE: Yes, if we could separate his role as an entrepreneur from his role as a worker.

Mr. OTTO: Then assuming there are people not in farm production who also invest in business, have you made any breakdown as to the amount of personal net savings which has come from dividends?

Mr. BRYCE: In line 1, no. I am sorry, we cannot. We have some idea of the dividends paid to individuals, but they just contribute to the incomes of those individuals. Those incomes are pooled and their savings are out of the total.

Mr. OTTO: We have an idea what we mean by personal net savings, and it is usually taken in the context of what you have saved from scrimping and doing without; in other words, a normal wage earner's savings. What I am trying to find out is what portion of that saving is reinvested in capital, and what portion really comes from that "easy-come-easy-go" money which is by way of dividends?

Mr. BRYCE: I am afraid life is too diverse for us to be able to make a statistical distinction there.

Mr. OTTO: Could you have an idea of what portion of this personal net savings is dividends?

Mr. BRYCE: No. We know that dividends paid to individuals, Canadian individuals, are something of the order of $700 million a year. Then, of course, those are subject to tax, and there are various problems in saying how much ends up in the hands of the individuals, and these simply contribute to people's total incomes and those people save out of them such incomes.

Mr. OTTO: Does this column also include equity gains such as the sale price of shares being a higher price—say, capital gain?

Mr. BRYCE: No.

Mr. OTTO: It does not?

Mr. BRYCE: No. Some of this personal net savings comes up in things like pension plans, insurance companies, investment trusts, and that; and there would be a problem in untangling capital gains from the other part of it.

Mr. OTTO: It includes that?

Mr. BRYCE: It may in these pooled funds, but we try to exclude capital gains in this computation as far as we can.

Mr. OTTO: Canadians personally invested in the first half of 1966 $3½ billion, but that also includes any moneys they might have received from the sale of shares, does it not?

Mr. BRYCE: No, because it is washed out, one against the other. They sell the shares to somebody else.

Mr. OTTO: If I bought shares at $20 and then I sold them at $100 and invested $100, that would be reflected in the $3½ billion?

Mr. BRYCE: But somebody else has to pay you the $100 for them. If you bought a new issue of shares for the $100, that would be a way of financing the business capital formation, and that would show up. But if you simply bought some outstanding shares from somebody else on the market, that is a transfer between one group of individuals and another.

Mr. OTTO: I am presuming that in the increase in the personal net savings a good proportion goes into new companies and new formations.

Mr. BRYCE: Yes, undoubtedly some, but not as much as various Ministers of Finance have said they would like to see going into the purchase of Canadian equities.

Senator THORVALDSON: Under Item 2, business gross saving, does that include capital cost allowances?

Mr. BRYCE: Yes.

Senator THORVALDSON: Would that consist of, say, one-half? Would you estimate one-half of the total figure?

Mr. BRYCE: No, more than one-half. I think I figured that out last night. The capital cost allowances in 1965 were approximately $6.1 billion out of a total here of business gross savings of $7.3 billion.

Senator THORVALDSON: That, of course, is exclusive of dividends?

Mr. BRYCE: Yes, that is right.

Senator THORVALDSON: Dividends paid out?

Mr. BRYCE: Yes, that is right.

Co-Chairman Senator CROLL: Mr. Bryce, take a look under "financed by foreign balance". Two figures there seem to me to require a little explanation. 1960 and 1965 are abnormally high. Was there any special reason for them?

Mr. BRYCE: Yes, sir. We had a large deficit in our current account and balance of payments in those two years. It was financed by foreign investment of one kind or another on balance. The variations in these figures, of course, represent the interplay between all the current elements in our balance of payments and the influence of the capital elements on them. You will notice in 1963 the figure drops from the previous year and this and the low figure in 1964 reflect the abnormally large deliveries of wheat following the Russian and Chinese sales in 1963. In 1965 those were largely over, until the latter part of the year. Meanwhile, imports were going up substantially as the Canadian economy expanded and tended to reach closer to the limits of its capacity. So our deficit on our international account widened by over $700 million that year, and that was financed by one form or another of an inflow of capital.

Co-Chairman Mr. BASFORD: What caused the reversal in personal net savings in 1964?

Mr. BRYCE: I think, sir, that again is largely the wheat years. As I recall, there was a big crop in 1963 and a good deal of it was sold by 1964, so the farmers accumulated a big equity in wheat that year and sold it off by the next.

Mr. BELL (*Saint John-Albert*): I wonder if I could ask Mr. Bryce this. He said this morning, I think, Canada has a good record of investing in the future. I think he said 25 per cent, but then you pointed out there is a danger in this. Would Mr. Bryce suggest if some of this could be channelled into direct savings it might be less inflationary?

Mr. BRYCE: Well, sir, the 25 per cent that I have mentioned was the total of investment both by business and government in durable assets of one kind or another. One has to have savings to be able to do that. You cannot translate the effort of the country to save into real goods unless somebody does produce the capital goods—the houses, the factories or the stocks of wheat or something in which they are embodied. So the two processes are wrapped up together. The saving is necessary in order to spare the resources in order to make the physical investment, and that is the real provision we make for the future. Except with one addition. By saving internally we could lend abroad and reverse this flow that is indicated in line 4 here. Somebody else could then use the savings. In our case, of course, we do the reverse. We make more physical provision for the future than we have accumulating savings out of our income to finance. We get the difference by borrowing abroad or having an inflow of equity capital.

Mr. BELL (*Saint John-Albert*): Then the record of Canadians, in so far as personal savings are concerned, is not too bad? In other words, they are not spending too much on themselves? Our affluence is not a great danger at the moment?

Mr. BRYCE: I suppose all these things are relative, sir. Our rate of saving is high; our rate of capital formation is quite high. In order to get our rate of capital formation as high as it is we have to borrow abroad.

Mr. Rubinoff has just handed me some figures for the total public and private investment as a percentage of the Gross National Product for a number of countries. It might be of interest if I just read these to you. I do not know exactly what they are going to reveal myself.

This shows 24.6 for Canada; 14½ for the U.S.A.—but that does not include public investment, for which we do not have really comparable figures to our own. The 14½ per cent though would compare with about 20 per cent for our

private investment in Canada. In the U.K. the total is 18 per cent. In France it is 21.7 per cent. In Germany it is higher than it is in this country, with 26.3 per cent. Italy has 19 per cent. Denmark has 28.6 per cent. Sweden has 18.9 per cent. With respect to some of these the latest years are 1963 and 1964.

Then, there are some countries which are higher than Canada, in addition to Germany which I have mentioned, and they are Norway at 27.5 per cent. The Netherlands at 28.3 per cent, and Japan at what strikes me as an astronomical figure of 32.9 per cent.

Those figures are not exactly comparable, but I do not think they are misleading in their general scale.

Mr. BELL (*Saint John-Albert*): It is hard to reconcile the great credit that is in existence in Canada—of which this committee has some knowledge from its earlier hearings—and the fact that Canada is such a good personal saving nation.

Co-Chairman Senator CROLL: How do you reconcile that, Mr. Bryce?

Mr. BRYCE: Well, first of all, of course, the business gross saving is separate from the personal consumer credit. The saving we import is net of that too. So far as personal saving is concerned, we have a good deal in this country that is more or less contractual. We have a high ratio of life insurance policies to income as compared to most countries. We have quite a lot of pension plans—you know, employer-employee pension plans—which give rise to a steady flow of savings. I do not know how we would compare with other countries in things like the regular purchase of bonds and stocks. There is something in the report of the Royal Commission on Banking and Finance on this matter, but I must confess that I have forgotten it now.

However, there is no doubt that we have a relatively high rate of personal savings, but not high enough to prevent us from having to import savings if we are going to have the kind of capital investment boom that we are having now, and that we have been having in the last few years.

Mr. BELL (*Saint John-Albert*): I have one final question, Mr. Chairman. One reads quite often in the newspapers about the amount of new wealth and savings that new Canadians bring to the country when they come, but this is not really very substantial, is it? It is balanced out by those persons who emigrate, is it not?

Mr. BRYCE: Yes, these figures are in our balance of payments figures somewhere. It is interesting to note what the orders of magnitude are. We received in 1965 from inheritances from people abroad, and money that immigrants brought in, according to Dominion Bureau of Statistics estimates, some $211 million. Then there is a similar outflow from Canadians emigrating and from inheritances left by Canadians to people outside of Canada, and, believe it or not, in that year that amounted to $211 million also.

Co-Chairman Senator CROLL: You just cannot win.

Co-Chairman Mr. BASFORD: Table 11?

Mr. BRYCE: Table 11, sir, is closer to the subject matter with which this committee will be dealing at length. These are the consumer price indexes. These we have summarized here by the same years that we used in the other tables, and the same percentage increases that we have used in the other tables, and we have taken the major components as they are normally published in the top block here, and we have broken out a few other sub-totals below.

You will notice that the trend of increase over this period is 2.1 per cent, as shown in the right hand figure in the line headed: "Total C.P.I.". Then, the increases in recent years can be compared with that trend. I have not got the figures for the trend between 1955 and 1965, but it was, as I recall it, something

under 2 per cent. Again, because the total went up quite considerably during the period of the Korean War.

What has happened is that during the last couple of years these figures too have been increasing manifestly at more than they have been over a long period.

Now, the components above give some indication of what it is that has been increasing in this period. You will notice that food has been spectacularly the biggest item in this past year. Between 1964 and 1965 it was transportation and health and personal care that was going up most spectacularly. Between 1963 and 1964, again it was the health item, and to a lesser extent the clothing item. These were the items that were leading the groups then.

We find it interesting to note that by and large the increase in commodity prices up until this current year has been a great deal less than the increase in the cost of services. If you look at the bottom line particularly, which excludes shelter—that is rents—you will see that in earlier years those had been going up a good deal more than the commodity figures.

Out of this the members of the committee may decide they want to look at particular categories which have exhibited these increases, and the monthly figures are given on the next sheet.

Co-Chairman Senator CROLL: Mr. Bryce, would you define services, please?

Mr. BRYCE: The services included here—there is quite a large variety of them. I think we have a list here. They are spread under a number of the normal headings. For example, under the item "Transportation" we have street car and bus fares, taxi fares, train fares and plane fares. You have got various types of automobile repairs.

Then, we get into health and personal care where there is a whole list of services such as doctors' fees for various things, dentists' fees, optical care, and prepaid medical care, which has a certain weight. Then come haircuts, hair dressing, theatre admissions, admissions to sporting events, and insurance on property—that is, on homes. Rents form the biggest item—tenants' costs. I am not sure whether property taxes are included as services, but they should be, of course. That is the general nature of them.

Co-Chairman Mr. BASFORD: Have you completed your comment on this table, Mr. Bryce?

Mr. BRYCE: Yes.

Mr. SALTSMAN: Would you give me the breakdown on the health and personal care so that I can see how that percentage is distributed amongst the various components?

Mr. BRYCE: We are just looking up to see what weights these are. I am sure Mr. James will be getting you the publications of the bureau that give you these details of the cost of consumer prices. We have here the list of items but not the weights attributed to them, and for your question, the weights are quite important.

Co-Chairman Mr. BASFORD: May I remind the committee that on Thursday, October 6, Mr. Holmes, Director of the Prices Division, D.B.S. Consumer Price Index, will be appearing before us to give us a very complete run down of the consumer price indexes.

Mr. BRYCE: It would probably be better if he were to speak on this than for me to do so. However, the materials are all in this publication called the Consumer Price Index for Canada, and there is set forth in this large table 4 all the weights in great detail; in fact, there are pages and pages of it. But in health and personal care, for example, doctors fees are weighted at 1.4 per cent of the sub-group section, that is, 1.4 of the total index. The dentists, half of that. Optical care is 2/10ths of one per cent. Pre-paid medical care, 1.1 per cent.

Pharmaceuticals, one per cent. In health and personal care, personal care is 2.2 per cent, 1.2 is supplies, and one per cent haircuts and hairdressing. I had not realized they were such a large factor.

Co-Chairman Mr. BASFORD: Are there any questions? Now, table 12.

Mr. BRYCE: These are the same, sir, monthly figures. Now the charts. The first one, which we have already referred to is the relative movement of wage costs and the gross corporate income.

The next shows the deficit and surplus on the national accounts basis for all levels of government combined. You will notice that in the period shown here there was a small surplus, then a deficit, and now we are up to a small surplus again.

The final chart is merely to illustrate the changes in price, quantity and value of GNP each year.

Mr. OLSON: These are all changes from one year to the next?

Mr. BRYCE: From one year to the next, yes. I think that completes the set of figures.

Co-Chairman Mr. BASFORD: That completes what Mr. Bryce wants to say at this time. I am open to questions. Mr. Bell?

Mr. BELL: I just wanted to ask Mr. Bryce why he did not include any regional figures.

Mr. BRYCE: Only to keep it down to some reasonable dimensions. We do not have these main aggregates on a regional basis, and while it is true that there are personal income figures on a regional basis, it is not possible to make this kind of analysis on a regional basis.

Mr. BELL: Would it be fair to say, Mr. Chairman, that by and large across Canada from east to west, there would not be a great deal of difference in the consumer price index, whether in the Maritimes or in the West?

Mr. BRYCE: No—those figures are published.

Mr. BELL: It is well known that in the Maritimes, for instance, that those provinces are affected by the general inflationary tendencies, and that it is a hardship on our economy to administer finances. That has been recognized quite recently, to a certain extent. I know, for example, that D.B.S. has some figures by provinces which might indicate the strength of the economy by regions, and I think we should be able to relate then.

Mr. BRYCE: We are very conscious of the problem, Mr. Chairman. The Atlantic provinces through their representatives have talked to us on a number of occasions about the difficulties that are caused to them when you get these inflationary tendencies in Canada as a whole, and the Government comes to the conclusion, or the Bank of Canada does, that some restraint is required by monetary policy or by fiscal policy. It is just not possible to make this restraint in terms of monetary policy on any kind of regional basis.

In dealing with fiscal policy, we have never got to the question of putting on different tax rates in different parts of the country simply because the economic situation is different, let us say, in the Atlantic provinces from central Canada.

This would be a very nice problem for Parliament as a new principle. It is true we do spend more money. For example, we will hold up our Public Works expenditure in areas where we believe the economy is reasonably fully employed. This is evident in what has been said over the past twelve or fifteen months in regard to policy concerning construction. But we have never, so far as I know, had any differential taxation to reflect the differences. There are a number of ways in which indirectly we have differences. For example, the equalization grants to the provinces reflect that incomes are lower in Eastern

Canada than in Central and Western Canada, and that enables those provinces in the east to bear down less heavily than otherwise they would have to do in order to provide services there. That does a little to offset or meet the situation you mentioned.

Under our area development arrangements we have made first tax concessions and now grants in these designated areas of slower growth, which results in some of what you are mentioning. How far a national government, central government, can go in this respect is a nice question in principle in its efforts to try to tailor its tax and other fiscal policies as well as expenditure dollars in relation to regional differences in employment conditions or relative economic differences.

Mr. Bell: Thank you for that statement, Mr. Bryce. I for one have always felt that when national institutions are in the money business in various ways, such as housing institutions or insurance companies, and the Government sends out word in various ways that there should be restrictions, such national institutions—and I speak about them rather than the Government, at the moment,—tighten up and call in their loans, and the like, and very often the little fellow in the extremities of our country feels the pinch first, and they hang on to the larger loans they have in the big cities. I appreciate that at the moment this could not be done, but I am wondering if there is any way in which government agencies like C.M.H.C. could take up the slack if they see this happening. I am wondering if this could be done in cases of government agencies like C.M.H.C. or I.D.B.

Mr. Bryce: I know in regard to the I.D.B. that they have always been concerned to take into account the situation of the Atlantic provinces, and I do not think there is any restriction there being exercised to prevent credit worthy borrowers getting credit. As you know, in the last year or two Central Mortgage and Housing Corporation has had to ration its housing mortgage funds to some degree to live within its budget. It might be at some point you could ask them what their practice has been in dealing with the Atlantic provinces area as compared with other areas. I would not like to speak for them on this point.

Mr. Bell (*Saint John-Albert*): Do we have any figures available on the moneys, by provinces or areas, that have gone out through the industry incentive program?

Mr. Bryce: I am sure those figures are available. I do not have them here, Mr. Bell. The Department of Industry has those on theirs, or the Atlantic Development Board on theirs.

Mr. Bell (*Saint John-Albert*): The contention has been made that over half of the moneys have gone into Ontario rather than into the places that need it more.

Co-Chairman Mr. Basford: I would suggest you have a word with Dr. James on this, Mr. Bell, and see what can be found out on it.

Mr. Olson: The question that I am seeking an opinion on does not relate to these tables. Mr. Chairman, are you entertaining questions which do not necessarily relate to the tables?

Co-Chairman Mr. Croll: May I ask one question relating to the tables, before you get in.

Mr. Bryce, taking a quick look at these tables—you will forgive me if I do not draw the right assumptions—it seems to me that that quick look indicates that the culprits are food and services. Can you help us in any way at all by indicating what are the probable factors that are affecting foods and services?

Mr. Bryce: Senator, I would hesitate to express an opinion on that. From time to time in the past, I have myself inquired as to what was going on there. I think the committee will have available to it experts who do know the situation

and do know it more thoroughly and more up to date, than I do. I think it is better that I should not try to answer that question. As to the culprits, I do not like the word.

Co-Chairman Senator CROLL: I do not want you to accept it.

Mr. BRYCE: I would perhaps draw this general conclusion out of all this. I think these figures show us that the total expenditure in the country, coming from a variety of sources—from the consumer, form Government, from business in their capital formation—has been increasing at an accelerating rate. This has been happening as we have approached closer and closer to the productive capacity of the country.

We have enjoyed an economic expansion now for something over five years. The exact timing of the beginning can be a matter of dispute. It has been a long, strong expansion in our economy.

Given the difficulties that this country has—with its areas, the problems of the labour mobility, the fact that our labour force is not trained and educated for the kind of jobs that are available now—we have reached what the Finance Department anyway have to regard as pretty well our full capacity to produce. If we could get certain people in certain areas to produce more, we could do more with that, but we cannot tell people what to do. With this reaching of capacity in our production, there is every indication that our expenditures will go on increasing, unless somehow some restraint is exercised upon them.

This is essentially the broad problem. This is the thing that is tending to pull our prices up.

The economists have a great argument as to whether this inflationary tendency is of a demand-pull character, that is, the excessive demands on the economy pulling prices up; or whether it is of a cost-push tendency, because people are pushing up the costs, because of wages and other things that enter into the cost of production. There seems to be some of each, and it is a nice question as to where the balance really is.

I think the figures we put before you show that, as we approach now what are the limits on our capacity—and those limits themselves have changed, because the country is growing all the time—our labour force is growing by something over 3 per cent, we are investing tremendous amounts, as you have seen, in capital equipment—we can grow at a real rate of, I suppose, 4 or 5 per cent a year. But if our expenditure goes on increasing at the rates it has been increasing in the last year or two—and particularly if those rates of increase accelerate—we are bound to see it finding its expression in price increases. It is going to come out somewhere or other.

It is not a question of there being culprits here or there. The pressure of demand is going to find some expression in higher prices, or perhaps in massively greater imports or something of this sort. This is the way we see the problem in overall terms.

It is really with that in mind that I believe that the Minister of Finance said, as he did on September 8, that some measure of restraint on total expenditure is necessary, and that he felt this restraint should be exercised at the present by somewhat more emphasis on a stronger fiscal policy—taking into account, he said, what he felt was an excessive reliance on monetary policy.

This brings us back, I think, to the position as to what general measures can be taken to deal with the situation as a whole, as distinct from measures to deal with particular bottlenecks or difficulties such as food or services or whatever it may be, sir.

I do not know whether that sort of summing up is of any value.

Senator THORVALDSON: It seems to me that the most staggering figure which Mr. Bryce has given this morning is to be found on table 12, in the inflation rate

in food. I did not know it was as high as 16 per cent. The increase for services is lower, 8 per cent, whereas the increase in most of the other items is between 4 and 6 per cent.

I want to suggest that the first item in table 12 is most revealing on the whole situation. As Senator Croll has said, the problem is certainly concentrated in those two things, and largely in food. I must remark that it is a staggering figure, that food should have gone up nearly 16 per cent in two years. I think we should concentrate on that more than on anything else—and I have no doubt we will.

Mr. OLSON: I would like to ask Mr. Bryce for his opinion or comment on the influence of interest rates on this whole question of price increase. I am talking about the cost of capital, but not as it relates to depreciation—the cost of capital for operating purposes and for construction, and all of the other factors that go into the establishment and the operation of our production establishment.

I suppose it is fair to say that there is a traditional economic theory that by increasing interest rates you can in fact slow down the economy and you are hopeful, as perhaps it has been successful in the past, of keeping prices and the whole price structure from moving hand in hand very rapidly. But I wonder if that is still valid, when we are approaching nearly full capacity and where there seems to be a shortage of capital, whether it is in fact doing what it used to do by increasing interest rates. Or do we have a contradiction here—by attempting to slow down the whole economy and keep prices in line, by increasing the cost of capital; it may be, on the other side of this contradiction I am talking about, it may be that all it does is add additional costs to the whole production cycle and to the distribution cycle, and it really does not do what it used to do and does not do what it intends to do, in this stage of our economic development.

Mr. BRYCE: Mr. Chairman, the role of interest rates, in acting as a restraint on expenditure, relates to the whole question of monetary policy and its role in a situation of this kind, and I understand that you will have the Governor of the Bank of Canada before you in another couple of weeks.

Co-Chairman Senator CROLL: Yes, we will.

Mr. BRYCE: This question can best be addressed to him. I think it is quite clear from what the Minister of Finance has said that he feels that the general mix of our policies has been such that we have left too much of the necessary restraint, which finds expression in higher interest rates, to be exercised through monetary policies and credit policies. That is not simply a matter for us; that is true, I would say, of the United States and Europe as well as Canada. The rise in interest rates has been going on throughout the western world and, in fact, we in Canada cannot get very much out of line with that, because, as you have seen, we are big importers of capital.

I suppose that year in year out we are by far the biggest importers of capital in the world. If we are going to get the capital of the world coming in here to invest and finance our provinces and municipalities and so on, we have got to have interest rates that will pull it in.

We do not, therefore, have too much choice in the matter so long as we are large importers of capital and so long as we are putting the capital to good use and getting our monies worth out of it. However, this is part of the price we pay. Our interest rates have to be related to those elsewhere in the world.

This rise of interest rates reflects nowadays some of the great scarcity of savings in the world as a whole. Other countries, too, are expanding and are pressing against the limits on their capacity, investing at high rates, and this leads to high interest rates. The United States has had quite rapid increases in

interest rates this year, so it is by no means a unique phenomenon for us. But, as the minister has said and as the Governor of the Bank of Canada has said in his report and speeches, it would appear that monetary policy, which should move more quickly and flexibly, has in the past year or so been carrying too large a share of the burden of trying to restrain this expansion.

Now, it does not do it just by interest rates. The workings of credit policy have an effect on the quantity of financing that can be done through the market and through the banks and like means, but, of course, the interplay of the quantity demanded and the quantity available results either in changes in the interest rates or in a sort of rationing process that may be done by securities dealers, underwriters, or by banks or other institutions.

That is one side: the role of the interest rate and similar means in limiting the expansion.

Now, what you point out is quite correct that interest is also a cost. It shows up either as a deduction from profits or something that people will have to pass along in their prices, if they are going to get the profits that are necessary to remunerate those who invested in the business. So that interest does then enter into costs. There is no doubt that that is a longer term element than the role of the interest rate in restraining demand.

On the other hand, it is not possible to escape that sort of thing, if world interest rates are generally rising and if one has to rely on credit policy for a portion at least of the restraint that is necessary in the economy to prevent inflationary pressures making excesses.

Mr. OLSON: During the past two years, Mr. Bryce, or let us say two or three years, do you think that the increase in interest rates has succeeded in holding the price structure, or has it contributed more to the increase in the price structure?

Mr. BRYCE: I think it has helped to hold it. The results are there for you to see, whether it has held enough.

Mr. CAMERON: Would you have any comments to make?

Co-Chairman Mr. BASFORD: Mr. Cameron, there are several people ahead of you who have indicated that they have questions to ask.

Mr. CAMERON: This is supplementary to the question Mr. Olson asked.

Co-Chairman Mr. BASFORD: All right.

Mr. CAMERON: I wonder if Mr. Bryce would have any comment to make on the recent decision in the Johnson administration to apply rate control in another area? That is, limiting the amount that banks and trust companies may pay for deposits. I presume that the intention is to have the effect of limiting the other way, too. Do you agree?

Mr. BRYCE: Well, sir, I would hesitate to explore that today. This is a question that might well be asked in the Committee on Banking, when you have the experts on that before you. Their way of working is just opposite to ours. They put a limit on what the banks can pay. That is partly for their own institutional reasons.

Co-Chairman Mr. BASFORD: Were you through, Mr. Olson? All right, Mr. Allmand.

Mr. ALLMAND: Mr. Bryce, from an examination of these figures, it would almost appear that we do not really have a general inflation, but that what we have are excessive increases in certain types of prices, as has been mentioned in food and, perhaps to a lesser degree, in clothing and services. But, on the other hand, if you look at durable commodities, there is certainly not any excesses increase there. It has only gone up in the last year by 0.2 per cent, and over the last 10 years, from '49 to '65, by 0.9 per cent.

Now, if that is the case, if we really do not have a general inflation, would not the cure to combat the price rises in specific areas be different from the general measures, let us say, to combat a general inflation, for example, monetary fiscal policy, cutting back on government expenditures and so forth? It would appear to me that we would take specific measures to combat the increase in food prices or in services rather than combat a general inflation.

Mr. BRYCE: I think this is an important point to consider, sir. If our problem were confined to a quite narrow front—suppose it were foods or certain types of foods—then I think we should look at it as a specific problem. However, it is really fairly widespread, as is indicated in Table 4, which I put before you, The price indices implied in figures of the gross national expenditure.

You will see there that the price increases are to be found in personal expenditures on goods and services, in government expenditures and in business capital formation.

I think we were all quite vividly conscious over the past 18 months of the increase in costs of construction. Indeed, the government's concern was focused on that front, rather than on the general price field. We felt that there was a shortage of construction capacity in labour, in management and what not, that construction costs were rising rapidly and rising relative to other things, and it was for those reasons that the government was cutting back its own construction programs and asking others to do the same. Since that time the increases have spread, until now they are now fairly widespread, as is indicated here.

I think, to try to look ahead, that the wage increases have now become sufficiently widespread that there must be in the works pressure on a lot of other prices as well. It is necessary to look ahead as best we can here and try to safeguard ourselves against the effects of these increasing costs.

Mr. ALLMAND: What percentage of our total gross national product would be in durable commodities? It would seem to me that it would be a very large percentage, and, if the price increases are so low in that area—

Mr. BRYCE: Durable consumer commodities are a relatively modest fraction.

Mr. ALLMAND: What about production durable goods?

Mr. BRYCE: They are wider and there is a greater variety there of price behaviour.

Mr. ALLMAND: What about Table 11, where you have durable commodities?

Mr. BRYCE: That is our consumer index.

Mr. ALLMAND: These would be frigidaires, washing machines, cars and so on?

Mr. BRYCE: Yes.

Mr. ALLMAND: I would like to know the percentage of production taken up by durable commodities.

Mr. BRYCE: Total consumer expenditures are around $32 billion or $33 billion, and durable goods or personal expenditures on durable goods are about between 7 and 8 per cent of the total gross national expenditure, that is 7 or 8 per cent of $56 billion which is getting on for $4 billion.

Mr. ALLMAND: What percentage is food?

Mr. BRYCE: $7 billion on food.

Mr. SALTSMAN: Mr. Bryce, what do you foresee in the next few years? I presume in order to base your policy you would have to anticipate certain conditions over the next five years. Do you foresee any easing of this pressure on our available resources?

Mr. BRYCE: That is a big issue, Mr. Saltsman. I think it is reasonable to say that our underlying position is one that makes it look as though we will have a

strong economic growth over the middle period. The expansion going on in the rest of the world looks as though it will afford us good markets for our exports. There are questions, however. First, we have had a long, uninterrupted or relatively uninterrupted upswing, and it is very unusual that this should go on without some kind of setback occasionally. Certain of our industries have a tendency to overbuild their capital, plant and facilities from time to time. We have been remarkably lucky this has kept up the way it has. I would say in general terms that the underlying position is good provided we can avoid these inflationary tendencies gathering strength leading to excessive efforts to get in ahead of the increase in construction costs and things like this and so lead people to do things out of temporary need which don't fit into long-term patterns.

The Minister of Finance in his budjet last spring emphasized what he thought the importance was of getting on to a sort of stable growth pattern, and what he is aiming to do, as set forth in his speech in the house in Setpember, is to try to devise some form of sensible restraint on the rate of increase in our expenditures so that we can hold to a reasonable growth rate and not get something that has obviously got to stop at some point.

Mr. SALTSMAN: I would take it, then, you are anticipating we will continue, or to put it in other words, pressure on the economy will be maintained fairly strongly as it has been over the last five years. It seems to me we are entering into a different kind of economic circumstance from what we have experienced before because of the nature in the change of our attitude, transfer payments or perhaps because of military commitments of some nations and armaments that are necessarily being maintained, that we may be facing the kind of situation we faced during the war where you have a permanent pressure on all your available resources both material and human and that perhaps the normal fiscal and the monetary policies will not be sufficient to contain these pressures in order to avoid inflation, and we should be considering, perhaps, something in the nature of physical rationing of money, price controls on money, price controls on basic commodities—I would like to hear your comments on that.

Mr. BRYCE: That is a very tall order indeed. I would hope we can learn to live with prosperity. We have not had to do it year after year before and I would hope we can learn to live with prosperity now without having to have rationing and controls and a centrally-managed economy. There are great advantages to being able to have decentralization and freedom of action on the part of the individual and business. But if this is the case, I think we have to learn to live with conditions where we can make the transition from an expansion taking us towards full employment, to live on some kind of stable growth pattern. I don't know where this has been done before. In the United States they are trying it now, and it looks as if they are lagging a few months behind us and catching up fairly quickly. We are both having difficulty in making this transition. The advantages of achieving it are so great that there is tremendous reason for trying to manage our affairs in such a way as to keep the thing in balance without having to harness it to keep it under control.

Mr. SALTSMAN: I can appreciate why you would want to do it in that particular way. But the question I am asking is: Are we going to be able to do it in that particular way? Have things changed? Is there something far more fundamental afoot other than the normal increase in prices and what one might call normal inflation? Are we going into a change in circumstances where the traditional tools will not be effective? The question of the interest rate has been brought up. Are we going to let it rise to dampen demand? This is simply not working. They are accepting the money at the highest cost and then passing it on. It also appears that a re-allocation is taking place in our society. Values are changed. Housing is being penalized and commercial construction is proceeding

because they can absorb the cost. This is why I feel an examination should be made of the economy which we are in.

Mr. BRYCE: I think these are good questions. Many of these are the kind of questions we hope the Economic Council considers when looking at the medium and long-term problems ahead of us. On shorter term matters I have a feeling that there was a change in attitude developed in Canada during the past year. There was a feeling that things were moving ahead quickly, that there were inflationary forces at work, and people had better get what they could while they could. That is very dangerous, and that is part of the reason why the present situation is one that does warrant the kind of attention or the kind of policy that the minister has outlined in his speech here.We have somehow got to create the feeling in this country that one can look forward to a steady gain in the future and one doesn't have to go out and get everything all at once. I know this sounds like a sermon, but I think this is where some of the present trouble lies, that if we all try to get what we are after too quickly we are bound to create this sort of acceleration in the growth of our expenditures that we see in these figures; but I would suggest you ask some of those questions about where we are heading of Dr. Deutsch when he is before the committee.

Mr. CAMERON: In light of the human race's notorious immunity to sermons, do you think you are going to be able to achieve it by that?

Mr. BRYCE: You notice that the Minister of Finance said that we should back it up with something in the nature of tax increases.

Mr. SALTSMAN: On this question of taxation, will taxation really solve the problem—the traditional fiscal tools, you tax a little higher to mop up the money? There seems to be some evidence to indicate that business or corporate taxation can be passed on. It is simply taxing at a higher level and it does not necessarily reduce the activity in society, but merely increases prices.

Mr. BRYCE: Of course, taxes can all be passed on in one fashion or another, depending on the response of those who bear them in the first instance. An increase in the personal income tax can lead those who bear it to demand more pay, whether they be workers or corporate executives or whoever. One has to try to gauge whether that will happen and take it into account. There is tremendous debate as to who really bears corporate income tax. After the Carter Commission has reported I have no doubt we will be debating that around here for a long time.

Mr. SALTSMAN: I think there are some interesting figures in these schedules you have given us which sort of indicate, despite the cries that have arisen in the country about the onerous taxation imposed on various elements in our community, the share that has gone to labour has not really changed at all, despite notions of how heavily taxed corporations are. With the proviso we do not know whether really all that has gone to labour in the traditional sense of labour—how much is to the white collar and administrative and executive, sales personnel and labour as such. I know this is not the work of this committee, but there seems to be a real need to look at the way we are distributing our income as well.

Co-Chairman Mr. BASFORD: Were you going to comment, Mr. Bryce?

Mr. BRYCE: No, I did not think Mr. Saltsman ended up with a question.

Mr. SALTSMAN: I raised my voice at the end, if you care to comment.

Co-Chairman Mr. BASFORD: Mr. Otto?

Mr. OTTO: Mr. Chairman, Mr. Bryce opened the subject and said that we are reaching full capacity in production. This is a common viewpoint, and I am not going to argue your viewpoint, but I want to know why you think we are reaching full capacity in production, acknowledging efficiency as something to

do with capacity. Have we reached full efficiency, or what percentage of efficiency have we reached?

Mr. BRYCE: I would not deny there is room for us to increase our efficiency, and I would hope that through a variety of measures our efficiency and our productivity will go on increasing, and that is where we hope for increasing standards of living. These figures here for productivity increases, crude as they are, and the other figures that have come out during the past year, are a little discouraging. We would have hoped the record was going to be better, as the Economic Council pointed towards it in their first report early in 1965. But when I speak of us reaching capacity, what I am referring to is what can be done in the immediate future. We reach capacity in the sense that piling on more expenditure is not likely to produce as much response in real goods in proportion to what it will in increased prices. You can scrape some more out of the machine if you are willing to stand substantial price increases and overtime pay and the use of poorer equipment and working to over-capacity. This is noticeable in the American economy currently. They have a remarkably big increase out of the manufacturing industry at a considerable increase in cost and prices as a result. We are getting to a point where it is common knowledge there is a shortage of many kinds of labour, and where the limits of our production are governed by the availibility of labour of the kind and in the places where it is demanded.

I have no doubt we have capacity in a number of our industries to expand if the right things are demanded of them. But when you look at what the response is in terms of price increases and in terms of volume increases, it strikes us we are now at the point in the curve, if you will, where further expansion in demand brings about more response in terms of increasing prices and costs than it does response in increasing output. These are not rigid lines; the curve bends rather than turns.

Mr. OTTO: I estimate that we—that includes management and labour—are probably no more than 40 per cent efficient. In other words, we can actually produce another 60 per cent with the same capital equipment. I note in your Table 5, which is the Gross National Product, we have had an increase of approximately 3 to 3½ billion from year to year. But since 1950, 15 years, we have introduced automation which should have increased our production tenfold. I am wondering whether your department, whether we should not be emphasizing and discussing and debating things which would induce more efficiency rather than restrictive measures that we are dealing with here.

I particularly question you because you have now repeated what the minister has said and which so many have said, that we are reaching full capacity. From my own experience in business, I know we are not nearly as efficient as we should be. Let us disregard labour for a moment and take management. The comparison of Canadian junior and senior management is practically nil to the United States. We have not the training for them; our lunch hours are too long; our credit cards are a little too free and easy. So when we speak of capacity we should include, I think you will acknowledge, efficiency. Are there any plans in your department which will try to induce more efficiency from industry and business?

Mr. BRYCE: Well, sir, I think you will find eveyrone about the Government hoping that we can achieve this and paying attention to measures that will result in it. As you imply, it is very largely a matter for management in business itself to achieve this efficiency. We in the Government service have our responsibility. We are trying to do it too, and I think we are doing it in many places. I see this though as a rather slower process than you seem to be implying.

Better management you just do not achieve overnight. As you were saying, it involves training. It involves the development of attitudes and experience. So, we have thought of the kind of expansion in capacity and output to which you are referring as one of those medium term operations, if you will, rather than a means of dealing with the problem that we face this winter and next spring. Certainly, anything that we can do to improve management, to improve our technology, to improve the training of our labour, and to improve the mobility of our labour, will contribute to our capacity in future years, and enable us to get a larger output from the same labour force, and to better employ the labour force and employ those members of the labour force whom we do not find to be employable under present conditions.

All of those things are to the good. It is just a question of time as to how quickly they can be brought to bear to meet the demands of the Canadian economy today.

Mr. OTTO: Why the process of pacing ourselves? It is like saying: "Let us eat our ice cream slowly so that it will last for a longer time". Why do you not say: "Let us gulp this up so that we can eat ten times more"? Why this emphasis on pacing, and distributing the so-called affluence, which gives Canadians the idea that we are as efficient as we can possibly be? That is why my question to you is: Why the emphasis on pacing? Why not put the emphasis on the realization that we are going to have inflation, and can be confident that we can face it with increased production?

Mr. BRYCE: My reply to that would be this, that if you go ahead and let inflationary tendencies have full play then they are apt, first of all, to create inequitable situations among us, because some will gain more out of the inflation than others—this is bound to be the case—and by and large it is the economically weak who suffer. Society regards this as unjust, and it is, I suppose, unjust. So, there is an element of injustice involved in allowing the inflationary forces to have full play, and allowing them to draw out increased production.

Secondly, experience elsewhere leads one to believe—and our own experience at some stages in the past, such as at the time of Korea, for example, and the immediate postwar period—that when people expect inflation, when businesses expect that the costs of building factories is going to go up and up over the next several years, they are inclined to rush into things that might better be put in place a year or two hence, and fitted in with a reasonable growth pattern of industry.

Mr. OTTO: This is my whole contention. I will say that a nation with no resources and no future should take it easy, and not make mistakes, but surely if there is any nation which can afford to rush into things and make mistakes, it is Canada.

Mr. BRYCE: Well, I think the issue here is an attitude, and you are suggesting we are young and vigorous, and can afford to be a bit reckless as long as we are moving fast. You must bear in mind, though, that ours is a very open economy. We have to compete with others, and if we let inflationary forces have full play we are apt to find our international competitive position worsened.

Mr. OTTO: Thank you.

Mr. SALTSMAN: Mr. Bryce—

Co-Chairman Mr. BASFORD: Before I call on you, Mr. Saltsman, I shall ask if there are any other members of the committee who want to raise questions. Very well, go ahead.

Mr. SALTSMAN: Mr. Otto has raised an important question, and one which I hope this committee will deal with, and that is the question of whether we cure

increasing by restraint—by retraint demand—or whether we try to cure it by increasing productivity. With Mr. Otto I agree. There is an enormous area for us to explore in terms of increased productivity, particularly in respect of our industrial machinery and processing in this country. In the last report of the Economic Council it was pointed out that we were something like 25 per cent less productive than the United States, but that at the same time we probably employed more capital per capita than the United States. This seems a rather strange situation.

There have been other reports such as the report of the Royal Commission on Canada's Prospects, and the study that was done on secondary industry in 1957, where it was pointed out how badly splintered Canadian secondary industry was, how badly it was organized, and how its facilities were duplicated, together with a limited market. There is a study by the Canadian Planning Association headed by Mr. English, which came up with similar conclusions. There is the recent study by Professor Safarrian along these lines. I think this is a fruitful area to be explored, in an endeavour to find out how to make the industrial structure more efficient than it is now.

Certainly, if we can do this now or in the immediate future there is the prospect of increasing our productivity by 25 per cent. Now, an increase of 25 per cent in our productivity would go an enormous distance towards preventing inflationary forces occurring. From the studies it is not so much a question of building new plants as of reorganizing our industries so that they produce more effectively, and so that we get longer runs, and so that we become more specialized. I will leave this to you for your comment.

Mr. BRYCE: Well, we have had an example in the last few years of the sort of thing you are talking about in the automobile program, but that has involved a good deal of building of plants, and a good deal of reorientation of the industry. It has involved complicated trade arrangements, and inter-company and intra-company changes. It takes time. It takes skill. It takes investment. Certainly, I would say that that is the sort of thing which Canadian governments favour, and the more we can solve our problems in that way, and along the lines that Mr. Otto has mentioned, I would think the better off we will all be. But the question, in addition, now is: How far does one restrain the inflationary tendencies current at present while we are waiting for—"waiting" is a bad word here—the results of our labours in this other direction to bear fruit? It is a matter of degree and a matter of judgment here as to what damage is done by allowing the inflationary tendencies to have one or another degree of freedom to bring about price increases while we are waiting on these longer run forces.

Mr. SALTSMAN: I would suggest the word "waiting" is the sort of thing that we are opposed to. I think what we are looking for is an aggressive determination while we are allowing inflationary pressures to move in the other direction.

Mr. BRYCE: We are doing a great deal in the other direction. Just speaking of the federal Government here, the Department of Manpower is not waiting; it is working hard. The Department of Industry is not waiting; it is working hard. Even we in the Department of Finance, I hope, are not just waiting on events in order to take action.

Mr. OTTO: I have one other point—

Co-Chairman Mr. BASFORD: Is it supplementary?

Mr. OTTO: Yes. Mr. Bryce, there was a comment published in the last couple of days to the effect that the orders for farm machinery from the Prairie provinces are down considerably—this is for next year's purchases—even though the money is there. Then, there is the bogey-man brought up again in the idea that when people are apprehensive about restrictions or recessions they

themselves bring on a recession. Now, what has your department planned in the event of a psychological change such as this happening?

Mr. BRYCE: We think we have sufficient flexibility to be able to adjust our fiscal measures with sufficient speed to these situations. We have had to do this before in the past twelve months, and we think we can do it again. There is a theory that tax measures cannot be changed quickly, but I think in the Parliament of Canada we can act a good deal more promptly than they can in, say, Washington on these matters—or, you can act more quickly, I should say.

Mr. OTTO: You were right the first time.

Mr. BRYCE: So that as far as tax policy is concerned we can respond with reasonable promptness. Now, as regards spending programs, there are some things you can do reasonably promptly, but a lot of good things take time to work out. You cannot create an effective manpower service by voting the money; it takes time to develop it. For instance, it requires people to form an organization. The Government is now embarking on the reorganization of its whole manpower system so that we can contribute to that increasing efficiency and productivity that will flow from it. You cannot just say we will do it in March if the economic situation demands it. Similarly our work on research. As you know, new measures to encourage research in industry, as well as in universities and government laboratories, cannot be done overnight by voting money. All that sort of thing takes time.

Mr. OTTO: But I take it that you have not neglected any psychological changes, that you are prepared to give the economy a boost where it is warranted?

Mr. BRYCE: Yes.

Co-Chairman Mr. BASFORD: Mr. Cameron?

Mr. CAMERON: Mr. Chairman, granted the necessity for controlling inflationary pressures, does it not occur to you that if we do this by traditional methods of fiscal policy and merely taking this back to a previous condition we might be neglecting to embark upon programs to stimulate the sort of productivity Mr. Otto and Mr. Saltsman have been speaking about? Again I come back to this question of the probable necessity of physical controls of those inflationary pressures, without winding the economy down so that we cannot do those necessary things to increase productivity. It is distressing to me to see the Government deciding immediately to curtail its expenditures, but it seems to me very obvious that the one field upon which our rising productivity must rest is that of training and education, and that is entirely in the hands of federal and provincial governments. It does seem to me quite short-sighted to go around a circle and go around it again without making some sort of positive advance such as we should be making. That should be the basis for physical control. As an example, it would have been quite impossible to conduct the war program by relying on monetary and fiscal policy. I am not suggesting that we now put controls on of that severity, but I suggest that the Government should be thinking in terms of some measure of physical control immediately to control inflationary tendencies without winding the economy down; and it should be taking measures to increase our productivity. Do you agree that there is some case for that?

Mr. BRYCE: The minister has spoken to that point in the house, and I rather hesitate to comment on it. However, I think it is important to realize that putting on controls is another way of limiting somebody's expenditure. If you ration food you limit what the consumer is able to spend on food. If you ration capital investment by business you are curbing it just the same as by putting a refundable tax on business, as we did last year. So you do not get away from the necessity of restraint by rationing these things. It is just a different way, perhaps a more positive way—it may be a more selective way, but it can also be

a more arbitrary way. In the end, it means that some bureaucrat or some minister has to decide whether a plant should be built here rather than there, and he has to weigh up a whole series of considerations of whether this is right. So I would say that what we are up against now is a choice of means of restraining this expansion in expenditure, whether you do it by rationing or controls or selective licencing, or something of that sort, or by general fiscal measure.

By and large, our economy is so organized that the fiscal measures are the ones that fit best into its way of working. Perhaps if we are going to learn to live with prosperity we may eventually have to come to something else. If it is a question of the inter-relationship between prices and costs and productivity, then this is something the Economic Council is going to be reporting upon after long consideration, and I suggest that discussions might best take place when its report comes in.

Mr. CAMERON: The minister has done this, he has been obliged to do so, in effect, with regard to steel prices. I imagine he is going to be obliged to do the same with automobile prices. This is the way in which this particular basic concern of inflation has to be curbed. I presume he has some club in his hand, or perhaps in his hip pocket designated by way of persuasion, but it is nevertheless a means of dealing with a delicate situation on a very precarious basis.

Mr. BRYCE: In his speech in the house he was trying persuasion in very general widespread terms.

Mr. CAMERON: He had to come down to selective terms.

Mr. BRYCE: Yes.

Co-Chairman Mr. BASFORD: Possibly Mr. Cameron's questions could be answered in the steering committee. If we had the minister in front of the committee at some point, perhaps that would be the better way of dealing with it.

Mr. CAMERON: Yes, I think that is an excellent idea.

Co-Chairman Mr. BASFORD: Senator Thorvaldson?

Senator THORVALDSON: Mr. Chairman, I agree. I think we have had a wonderful discussion in regard to productivity, and I certainly agree that productivity is a large part of the answer to our problem which we are discussing.

One thing that has bothered me practically throughout my life is the tremendous difference between the per capita G.N.P. or productivity of the United States and Canada. We hear recurringly about the differential being about 25 per cent. I have been hoping year by year that we would do better in Canada and approach to a closer balance with that of the Americans. It seems to me that we should try to find the answer to that problem, if there is an answer. Is the answer that the Americans work harder than we do, or is it something else? Of course, I realize that our productivity equipment and machinery, and so on, is developed from American patents; nevertheless, it is a fact that the productivity of the United States is far greater than that of Canada.

We talk about our competitive situation, and we must be competitive, but how can we remain competitive with the United States unless we narrow this gap of productivity?

Mr. Chairman, I make these remarks for the reason that perhaps there is a field for study either by this committee or a subcommittee of it to try to discover this differential.

Let me give an example to illustrate the fact that probably the Americans work harder than we do. Over the years I have been to Calgary, I have noticed that traditionally the American oil people who are in Calgary start at 8 o'clock in the morning, whereas we start at nine o'clock in the morning. When I go

to the United States I observe that business is booming and that the people there are on the job at 7 o'clock in the morning or certainly by 8 o'clock whereas we only just get going by 8:30 or 9 o'clock. Is that the answer to this tremendous differential?

I make these remarks, Mr. Chairman, because I agree thoroughly that productivity, as Mr. Otto has suggested, is the answer, and as you have also suggested, and I ask if it would not be wise to try to discover the reason for this tremendous differential, because I know we shall never have the same scale of living as Americans until we come up to their scale of productivity. The reverse situation, of course, is in England, as anyone who has been there will have observed. Everyone knows, from figures and from personal knowledge—those who have been in England—that they need 500 people in the factory to do what even in Canada do with 200 or 250. That is why their productivity per capita is much less than ours.

Having said those things, I want to confirm that it is my opinion that this is an important part of our study.

Would you like to comment, Mr. Bryce, as to the reason why this differential exists between ourselves and the United States?

Mr. BRYCE: I have no doubt this is a matter not only of great importance but of great interest. The Economic Council has worked on this. The Department of Industry has worked on this. Some Canadian industries are just as productive as American industries, but the Canadian economy as a whole, quite manifestly produces only in real terms 75 to 80 per cent of the average output of the American economy.

This is a very complicated general issue, that requires a lot of study, and I would hesitate to express an opinion on it offhand.

Senator CARTER: I would like to follow up that question of productivity and ask Mr. Bryce if he could comment on whether this difference in productivity in Canada as compared with the United States is related to the difference in population and the difference in mass markets? To what extent is that a factor?

Mr. BRYCE: Mr. Rubinoff was looking this up in the Economic Council's report, and perhaps he could answer that question.

Mr. RUBINOFF: The second annual review of the Economic Council has a chapter on economic growth. They attempted to make a preliminary analysis of the difference, in so far as it could be measured, as between Canadian average productivity and that of the United States.

They dealt with a number of factors. They broke it down, broadly speaking, three ways. Of the 25 per cent difference in per capita production—one of the factors was that there were more people working, that is there was more participation in the labour force in the United States, and this was worth about 5 per cent.

Of the other 20 per cent, the rough calculations would suggest that about 8 per cent is due to the difference in the level of education, that is, the United States, on the average, having a little more highly skilled labour force and thus being able to produce more. The remaining 12 percentage points is made up of a number of other things—the scale, the large markets in which they have to sell, right within continental United States, and a number of other factors.

This is by no means a complete examination. This could be broken down in a number of other ways. But in terms of this preliminary report, which the Economic Council produced, they did suggest these broad orders of magnitude.

Senator CARTER: That study does indicate that there are some components which we in Canada, in our present state of development, cannot overcome. As long as those components have that effect, we can never reach parity with the United States.

Mr. BRYCE: If it is a matter of educating and training our labour force, it takes time obviously. If it is a matter of having a population that is dispersed much more, over a larger portion of country, I do not know that any time will cure that.

As far as techniques and attitudes are concerned, presumably we can deal with that more promptly.

Senator MCDONALD: Is it not true also that Canadian management is not on a par with the United States, as well as their labour force? Is it not true that there are some Canadian companies that very recently have imported all of their Canadian management from the United States and have moved from a position of great losses to, in the case of some of them, very distinguished positions in world marketing today, simply by the importation of management?

Mr. BRYCE: I do not know enough about this to wish to venture an opinion.

Co-Chairman Senator CROLL: I will ask a question about which you do know something—a great deal.

The recent report issued by the Government indicated that the gross national product had dropped some percentage. Is that a matter of concern, or undue concern, or would you like to comment?

Mr. BRYCE: The total did not drop, sir. You are referring to what came out on Tuesday morning?

Co-Chairman Senator CROLL: Yes.

Mr. BRYCE: The figure for the gross national product at market prices, seasonally adjusted at annual rates, shows for the second quarter of this year, a rate of 57.008 billion a year. That is a figure of great precision for a preliminary figure.

For the first quarter, it was 56.112 billion. So the rate has increased. But the rate of increase has fallen off somewhat.

Between the fourth quarter of last year and the first quarter of this year, there was a very rapid increase. Now the increase is more moderate.

I think the main point is that the rate of increase, between the last quarter of 1965 and the first quarter of 1966 was so prodigious that it could not possibly have kept on. It is just exactly what we expected, that the rate of increase would fall back to a more reasonable level.

Co-Chairman Senator CROLL: I see.

Mr. BRYCE: It is still going up, but it is going up by 1.6 per cent, between the first and second quarter. That is not a bad rate of increase.

Mr. BELL (*Saint John-Albert*): What would make it prodigious in one quarter as you mentioned and not the other?

Mr. BRYCE: I do not know why there was a big increase between the fourth quarter of 1965 and the first quarter of 1966. There are a whole lot of detailed considerations. There are also problems, I suspect, in the seasonal adjustment of these figures.

We have been taking various measures to maintain employment in the winter, and I do not feel full confidence that our seasonal corrections adequately take this into account.

There are a lot of influences that come into play, in the first quarter of this year as compared with last year. Mr. Rubinoff reminds me that Ontario had announced that it was going to increase its sales tax before it did so, and people

went out and bought things in anticipation of that increase, which had an influence.

Our exports to the United States increased very substantially in that quarter. But one would need to make a thorough study of that, to explain why there was that abnormal difference. Does that answer it?

Co-Chairman Senator CROLL: Yes, quite.

Co-Chairman Mr. BASFORD: There being no further questions, I would like on behalf of the committee, Mr. Bryce, to express to you and to the members of your staff our very great thanks and appreciation for your coming here today and giving the statement that you have given. I know that the sittings of the committee caught you and your department at a bad time, and thus threw a very heavy and extra burden on you to come before us. We do appreciate it very much.

Mr. BRYCE: Thank you, sir.

Co-Chairman Mr. BASFORD: The committee will meet at 9 o'clock tomorrow morning and the steering committee will meet now.

Whereupon the committee adjourned.

APPENDIX "1"

TABLE 1—GROSS NATIONAL EXPENDITURE—CURRENT DOLLARS
(Millions of dollars)

	1949	1950	1955	1960	1961	1962	1963	1964	1965	1st Half(1) 1965	1st Half(1) 1966	Percentage Change per year 1964/1963	1965/1964	1H 1966/1H 1965	1965(2)/1949
1. Personal Expenditure on consumer goods and services	10,923	12,026	17,389	23,540	24,466	25,926	27,487	29,666	32,063	31,196	34,008	+ 7.9	+ 8.1	+ 9.0	7.0%
2. Government Expenditure on Goods and Services	2,127	2,344	4,792	6,769	7,236	7,717	8,075	8,654	9,596	9,394	10,572	+ 7.2	+10.9	+12.5	9.9%
3. Business Gross Fixed Capital Formation	3,032	3,348	5,210	6,692	6,635	6,960	7,591	9,103	10,424	9,882	11,772	+19.9	+14.5	+19.1	8.0%
4. Value of physical change in inventories	49	550	311	410	30	532	535	386	948	1,228	1,072	—	—	—	—
5. Exports of Goods and Services	4,021	4,183	5,764	7,008	7,631	8,259	9,111	10,507	11,156	10,798	12,606	+15.3	+ 6.2	+16.7	6.6%
6. Imports of Goods and Services	−3,853	−4,513	−6,443	−8,172	−8,542	−9,082	−9,618	−10,919	−12,297	−11,790	−13,488	+13.5	+12.6	+11.4	7.5%
7. Residual Error	44	68	109	40	15	263	243	6	106	52	18	—	—	—	—
8. GROSS NATIONAL EXPENDITURE AT MARKET PRICES	16,343	18,006	27,132	36,287	37,471	40,575	43,424	47,403	51,996	50,760	56,560	+ 9.2	+ 9.7	+11.4	7.5%

(1) Seasonally adjusted annual rates.
(2) Compounded growth rate.

TABLE 2—PERCENTAGE DISTRIBUTION OF GROSS NATIONAL EXPENDITURE—CURRENT DOLLARS

	1949	1950	1955	1960	1961	1962	1963	1964	1965	1st Half 1966
1. Personal Expenditure on Goods and Services	66.8	66.8	64.1	64.9	65.2	63.9	63.2	62.5	61.6	60.1
2. Government Expenditure on Goods and Services	13.0	13.0	17.7	18.7	19.4	19.0	18.6	18.3	18.5	18.7
3. Business Gross Fixed Capital Formation	18.6	18.6	19.2	18.4	17.7	17.2	17.5	19.2	20.0	20.8
4. Value of physical change in inventories	0.3	3.1	1.1	1.1	—	1.3	1.2	0.8	1.8	1.9
5. Exports of Goods and Services	24.6	23.2	21.2	19.3	20.4	20.4	21.0	22.2	21.5	22.3
6. Imports of Goods and Services	–23.6	–25.1	–23.7	–22.5	–22.8	–22.4	–22.1	–23.0	–23.6	–23.8
7. Residual Error of Estimate	0.3	0.4	0.4	0.1	0.1	0.6	0.6	—	0.2	—
8. Gross National Expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

TABLE 3—GROSS NATIONAL EXPENDITURE IN CONSTANT (1949) DOLLARS
(Millions of 1949 dollars)

												Percentage Changes			
	1949	1950	1955	1960	1961	1962	1963	1964	1965	1st Half(1) 1965	1st Half(1) 1966	1964 / 1963	1965 / 1964	1H 1966 / 1H 1965	1965(2) / 1949
1. Personal Expenditure on Consumer Goods and Services..............	10,923	11,642	14,662	17,945	18,508	19,364	20,235	21,506	22,800	22,313	23,556	+ 6.3	+ 6.0	+ 5.6	4.7%
2. Government Expenditure on Goods and Services.....................	2,127	2,242	3,563	4,197	4,393	4,561	4,588	4,771	5,069	5,016	5,323	+ 4.0	+ 6.2	+ 6.1	5.6%
3. Business Gross Fixed Capital Formation.......................	3,032	3,167	3,962	4,345	4,272	4,361	4,615	5,305	5,820	5,552	6,412	+15.0	+ 9.7	+15.5	4.2%
4. Change in inventories..............	49	561	419	361	26	462	464	322	854	1,096	972	—	—	—	—
5. Exports of Goods and Services....	4,021	3,999	4,969	5,806	6,224	6,534	7,118	8,051	8,452	8,244	9,350	+13.1	+ 5.0	+13.4	4.8%
6. Imports of Goods and Services.....	−3,853	−4,206	−5,742	−6,743	−6,845	−6,992	−7,188	−8,064	−9,042	−8,704	−9,747	+12.2	+12.1	+12.0	5.5%
7. Residual error of estimate..........	44	66	87	28	11	182	165	4	68	34	12	—	—	—	—
8. Adjusting entry....................	—	—	—	−90	−74	−185	−257	−232	−251	−309	−255	—	—	—	—
9. GROSS NATIONAL EXPENDITURE IN CONSTANT (1949) DOLLARS.........	16,343	17,471	21,920	25,849	26,515	28,287	29,740	31,663	33,770	33,242	35,623	+ 6.5	+ 6.7	+ 7.2	4.6%

(1) Seasonally adjusted annual rates.
(2) Compounded annual growth rate.

TABLE 4—IMPLICIT PRICE INDEXES—GROSS NATIONAL EXPENDITURE
(1949=100.0)

	1949	1950	1955	1960	1961	1962	1963	1964	1965	1st Half(1) 1965	1st Half(1) 1966	Percentage Changes 1964/1963	1965/1964	1H 1966/1H 1965	1965(2)/1949
1. Personal Expenditure on Goods and Services	100.0	103.3	118.6	131.2	132.2	133.9	135.8	137.9	140.6	139.8	144.4	+ 1.5	+2.0	+3.3	+2.2
2. Government Expenditure on Goods and Services	100.0	104.5	134.5	161.3	164.7	169.2	176.0	181.4	189.3	187.3	198.6	+3.1	+4.4	+6.0	+4.1
3. Business Gross Fixed Capital Formation	100.0	105.7	131.5	154.0	155.3	159.6	164.5	171.6	179.1	178.0	183.6	+4.3	+4.4	+3.1	+3.7
4. Exports of Goods and Services	100.0	104.6	116.0	120.7	122.6	126.4	128.0	130.5	132.0	131.0	134.8	+2.0	+1.1	+2.9	+1.8
5. Imports of Goods and Services	100.0	107.3	112.2	121.2	124.8	129.9	133.8	135.4	136.0	135.5	138.4	+1.2	+0.4	+2.1	+1.9
6. Residual Error of Estimate	100.0	103.2	124.7	141.2	142.1	144.3	146.9	150.5	155.3	152.9	150.0	+2.5	+3.2	−1.9	+2.8
7. GROSS NATIONAL EXPENDITURE AT MARKET PRICES	100.0	103.1	123.8	140.4	141.3	143.3	146.0	149.7	154.0	152.7	158.8	+2.5	+2.9	+4.0	+2.7

(1) Seasonally adjusted.
(2) Compound Annual Growth Rate.

TABLE 5—GROSS NATIONAL PRODUCT BY INCOME SHARES, CURRENT DOLLARS
(millions of dollars)

	1949	1950	1955	1960	1961	1962	1963	1964	1965	1H(1) 1965	1H(1) 1966	Percentage Changes 1964/1963	1965/1964	1H 1966/1H 1965	1965(2)/1949
1. Wages, salaries and supplementary labour income	8,000	8,629	13,223	18,245	18,996	20,233	21,547	23,433	26,033	25,304	28,596	+ 8.8	+11.1	+13.0	+ 7.7
2. Military pay and allowances	115	137	394	509	550	586	598	583	587	594	620	− 2.5	+ 0.7	+ 4.4	+10.7
3. Corporation profits before taxes	1,879	2,522	2,965	3,338	3,427	3,819	4,188	4,819	5,199	5,076	5,344	+15.1	+ 7.9	+ 5.3	+ 6.6
4. *Deduct:* Dividends paid to non-residents	−317	−404	−395	−458	−586	−584	−614	−713	−751	−744	−774	+16.1	+ 5.3	+ 4.0	+ 5.5
5. Rent, interest and miscellaneous investment income	703	890	1,684	2,470	2,670	2,832	3,078	3,262	3,554	3,450	3,806	+ 6.0	+ 9.0	+10.3	+10.7
6. Accrued net income of farm operators from farm production	1,248	1,322	1,264	1,186	1,008	1,496	1,721	1,464	1,645	1,530	2,176	−14.9	+12.4	+42.2	+ 1.7
7. Net income of non-farm unincorporated business	1,389	1,439	1,791	2,213	2,274	2,401	2,551	2,720	2,877	2,804	2,898	+ 6.6	+ 5.8	+ 3.4	+ 4.7
8. Inventory valuation adjustment	−112	−374	−189	−70	−89	−130	−200	−131	−325	−248	−392	+69M	−194M	−144M	+ 6.9
9. NET NATIONAL INCOME AT FACTOR COST	12,905	14,161	20,737	27,433	28,250	30,653	32,869	35,437	38,819	37,766	42,274	+ 7.8	+ 9.5	+11.9	+ 7.1
10. Indirect taxes less subsidies	1,808	2,000	3,237	4,470	4,696	5,293	5,600	6,372	7,172	7,026	7,764	+13.8	+12.6	+10.5	+ 9.0
11. Capital consumption allowances and miscellaneous valuation adjustment	1,673	1,913	3,266	4,423	4,540	4,892	5,198	5,600	6,110	6,018	6,538	+ 7.7	+ 9.1	+ 8.6	+ 9.4
12. Residual error of estimate	−43	−68	−108	−39	−15	−263	−243	−6	−105	−50	−16	+237M	− 99M	+ 34M	—
13. GROSS NATIONAL PRODUCT	16,343	18,006	27,132	36,287	37,471	40,575	43,424	47,403	51,996	50,760	56,560	+ 9.2	+ 9.7	+11.4	+ 7.5

(1) Seasonally adjusted annual rates.
(2) Compounded growth rate.

TABLE 6—PER CENT COMPOSITION OF GROSS NATIONAL PRODUCT

	1949	1950	1955	1960	1961	1962	1963	1964	1965	1H 1965	1H 1966
1. Wages, salaries and supplementary labour income	49.0	47.9	48.7	50.3	50.7	49.9	49.6	49.4	50.1	49.9	50.6
2. Military pay and allowances	0.7	0.8	1.5	0.4	1.5	1.4	1.4	1.2	1.1	1.2	1.1
3. Corporation profits before taxes	11.5	14.0	10.9	9.2	9.1	9.4	9.6	10.2	10.0	10.0	9.4
4. *Deduct:* Dividends paid to non-residents	−1.9	−2.2	−1.5	−1.3	−1.6	−1.4	−1.4	−1.5	−1.4	−1.5	−1.4
5. Rent, interest and miscellaneous investment income	4.3	4.9	6.2	6.8	7.1	7.0	7.1	6.9	6.8	6.8	6.7
6. Accrued net income of farm operators from farm production	7.6	7.3	4.7	3.3	2.7	3.7	4.0	3.1	3.2	3.0	3.8
7. Net income of non-farm unincorporated business	8.5	8.0	6.6	6.1	6.1	5.9	5.9	5.7	5.5	5.5	5.1
8. Inventory valuation adjustment	−0.7	−2.1	−0.7	−0.2	−0.2	−0.3	−0.5	−0.3	−0.6	−0.5	−0.7
9. NET NATIONAL INCOME AT FACTOR COST	79.0	78.6	76.4	75.6	75.4	75.5	75.7	74.8	74.7	74.4	74.7
10. Indirect taxes less subsidies	11.1	11.1	11.9	12.3	12.5	13.0	12.9	13.4	13.8	13.8	13.7
11. Capital consumption allowancea and miscellaneous valuation adjustment	10.2	10.6	12.0	12.2	12.1	12.1	12.0	11.8	11.8	11.9	11.6
12. Residual error of estimate	−0.3	−0.4	−0.4	−0.1	—	−0.7	−0.6	−0.2	−0.2	−0.1	—
13. GROSS NATIONAL PRODUCT AT MARKET PRICES	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

TABLE 7—INDEXES OF COSTS PER UNIT OF OUTPUT
(1949=100)

	1949	1950	1955	1960	1961	1962	1963	1964	1965	1st Half[1] 1965	1st Half[1] 1966	Percentage Changes per year 1964/1963	1965/1964	1H 1966/1H 1965	1965[2]/1949
1. Wages, salaries, and supplementary labour income	100.0	100.9	123.3	144.2	146.4	146.1	148.0	151.2	157.5	155.5	164.0	+ 2.2	+ 4.2	+ 5.5	+ 2.9
2. Corporation profits before taxes	100.0	125.5	117.7	112.3	112.5	117.4	122.5	132.4	133.9	132.8	130.5	+ 8.1	+ 1.1	− 1.7	+ 1.8
3. Rent, interest and miscellaneous investment income	100.0	118.5	178.7	222.0	234.1	232.7	240.5	239.5	244.7	241.3	248.4	− 0.4	+ 2.2	+ 2.9	+ 5.8
4. Accrued net income of farm operators from farm production	100.0	99.1	75.6	60.1	49.8	69.2	75.8	60.6	63.8	60.3	80.0	−20.1	+ 5.3	+32.7	− 2.8
5. Net income of non-farm unincorporated business	100.0	96.9	96.2	100.7	100.9	99.9	100.9	101.1	100.3	99.2	95.8	+ 0.2	− 0.8	− 3.4	+ 0.2
6. Net National Income at factor cost	100.0	102.7	119.8	134.4	135.0	137.2	139.9	141.8	145.6	143.9	150.3	+ 1.4	+ 2.7	+ 4.4	+ 2.4
7. Indirect taxes less subsidies	100.0	103.5	133.5	156.3	160.1	169.1	170.2	182.0	192.0	191.0	197.0	+ 6.9	+ 5.5	+ 3.1	+ 4.2
8. Capital consumption allowances and miscellaneous valuation adjustment	100.0	107.0	145.5	167.1	167.3	168.9	170.7	172.8	176.7	176.8	179.3	+ 1.2	+ 2.3	+1.4	+ 3.6
9. PRICE INDEX OF GROSS NATIONAL PRODUCT	100.0	103.1	123.8	140.3	141.4	143.4	146.0	149.7	154.0	152.7	158.8	+ 2.5	+ 2.9	+ 4.0	+ 2.7

(1) Seasonally adjusted.
(2) Compounded.

TABLE 8—INDEXES OF PRODUCTIVITY AND AVERAGE EARNINGS

(1949=100.0)

	1949	1950	1955	1960	1961	1962	1963	1964	1965	1st Half[1] 1965	1st Half[1] 1966	Percentage Change per year: 1964/1963	1965/1964	1H 1966/1H 1965	1965[2]/1949
A—Total Economy															
1. Real Gross National Product...	100.0	106.9	134.1	158.2	162.2	173.1	182.0	193.7	206.6	203.4	218.0	+ 6.4	+ 6.7	+ 7.2	+ 4.6
2. Labour Force Employed........	100.0	101.3	109.2	121.4	123.2	126.7	129.8	134.5	139.7	138.7	144.7	+ 3.6	+ 3.9	+ 4.3	+ 2.1
3. Output per person (1÷2)........	100.0	105.5	122.8	130.2	131.6	136.6	140.2	144.0	147.9	146.6	150.7	+ 2.7	+ 2.7	+ 2.8	+ 2.5
B—Non-Farm Economy															
4. Non-Farm Gross Domestic Product......................	100.0	106.5	138.0	166.6	171.6	181.5	191.1	204.8	218.6	214.9	230.7	+ 7.2	+ 6.7	+ 7.4	+ 5.0
5. Non-Farm Employment........	100.0	103.2	118.5	137.7	140.1	145.0	149.2	155.8	163.4	161.6	171.0	+ 4.4	+ 4.9	+ 5.8	+ 3.1
6. Output per person—Non-Farm (4÷5)........................	100.0	103.2	116.5	121.0	122.5	125.2	128.0	131.5	133.8	132.9	134.9	+ 2.7	+ 1.7	+ 1.5	+ 1.8
7. Wages and Salaries—Non-Farm.	100.0	108.0	168.6	232.6	242.4	258.3	274.8	298.2	330.8	317.0	357.0	+ 8.5	+10.9	+12.6	+ 7.8
8. Paid Workers—Non-Farm......	100.0	103.4	122.1	143.5	145.5	151.0	155.8	162.8	171.5	168.6	179.4	+ 4.5	+ 5.3	+ 6.4	+ 3.4
9. Average Wages per Worker (7÷8)	100.0	104.5	138.1	162.1	166.6	171.0	176.4	183.2	192.9	188.0	199.0	+ 3.9	+ 5.3	+ 5.9	+ 4.2
10. Labour cost per unit output (non-farm) (7÷4)..................	100.0	101.4	122.2	139.6	141.3	142.3	143.8	145.6	151.3	147.5	154.7	+ 1.3	+ 3.9	+ 4.9	+ 2.6
C—Private Non-Farm Economy[3]															
11. Output.........................	100.0	106.7	137.5	166.1	170.8	181.0	191.3	205.8	220.7			+ 7.6	+ 7.2		+ 5.1
12. Persons Employed..............	100.0	102.0	114.1	124.2	124.7	128.6	132.0	137.6	144.7			+ 4.2	+ 5.2		+ 2.3
13. Man-hours.....................	100.0	100.1	107.9	114.4	113.3	117.5	119.6	124.9	129.8			+ 4.4	+ 3.9		+ 1.6
14. Output per person employed....	100.0	104.6	120.5	133.8	137.0	140.8	145.0	149.6	152.5			+ 3.2	+ 1.9		+ 2.7
15. Output per man-hour............	100.0	106.7	127.4	145.2	150.8	154.0	160.0	164.8	170.1			+ 3.0	+ 3.2		+ 3.4

(1) Seasonally Adjusted.
(2) Compound Annual Growth Rates.
(3) Covers the entire economy with the exception of agriculture, government departments and community services such as health and welfare for which productivity measures are not available.

The source for part C is the D.B.S. DAILY BULLETIN, June 7, 1966.

TABLE 9—GOVERNMENTS REVENUE AND EXPENDITURE—CURRENT DOLLARS
(Millions of dollars)

	1949	1950	1955	1960	1961	1962	1963	1964	1965	1st Half(1) 1965	1st Half(1) 1966	Percentage Changes 1964/1963	1965/1964	1H 1966/1H 1965	1965(2)/1949
A—REVENUE															
Direct taxes—persons															
FED.	707	654	1,325	2,017	2,132	2,088	2,193	2,558	2,715	2,740	2,792	+16.6	+ 6.1	+ 1.9	+ 8.8
P.M.	82	86	174	343	379	641	723	870	1,197	1,086	1,432	+20.3	+37.6	31.9	+18.2
Total	789	740	1,499	2,360	2,511	2,729	2,916	3,428	3,912	3,826	4,224	+17.6	+14.1	+10.4	+10.5
Direct taxes—corporations															
FED.	588	837	1,210	1,266	1,311	1,279	1,362	1,498	1,623	1,572	1,626	+10.0	+ 8.3	+ 3.4	+ 6.6
P.M.	130	146	62	278	301	431	465	498	541	526	548	+ 7.1	+ 8.6	+ 4.2	+ 9.3
Total	718	983	1,272	1,544	1,612	1,710	1,827	1,996	2,164	2,098	2,174	+ 9.3	+ 8.4	+ 3.6	+ 7.1
Indirect and Withholding taxes															
FED.	1,095	1,169	1,811	2,259	2,306	2,526	2,578	2,987	3,415	3,272	3,720	+15.9	+14.3	+13.7	+ 7.4
P.M.	837	948	1,575	2,525	2,757	3,184	3,460	3,848	4,235	4,162	4,554	+11.2	+10.1	+ 9.4	+10.7
Total	1,932	2,117	3,386	4,784	5,063	5,710	6,038	6,835	7,650	7,434	8,274	+13.2	+11.9	+11.3	+ 9.0
Non-tax Revenues															
FED.	264	305	591	869	919	966	1,044	1,144	1,220	1,182	1,284	+ 9.6	+ 6.6	+ 8.6	+10.0
P.M.	394	422	638	945	994	1,097	1,203	1,294	1,427	1,378	1,574	+ 7.6	+10.3	+14.2	+ 8.4
Total	658	727	1,229	1,814	1,913	2,063	2,247	2,438	2,647	2,560	2,858	+ 8.5	+ 8.6	+11.6	+ 9.1
Transfers from federal government P.M.	187	251	450	994	1,128	1,134	1,169	1,252	1,427	1,470	1,584	+ 7.1	+14.0	+ 7.8	+13.5
Total Revenue															
FED.	2,654	2,965	4,937	6,411	6,668	6,859	7,177	8,187	8,973	8,766	9.422	+14.1	+ 9.6	+ 7.5	+ 7.9
P.M.	1,630	1,853	2,899	5,085	5,559	6,487	7,020	7,762	8,827	8,622	9,688	+10.6	+13.7	+12.4	+11.1
Total	4,284	4,818	7,836	11,496	12,227	13,346	14,197	15,949	17,800	17,388	19,110	+12.3	+11.6	+ 9.9	+ 9.3
Canada Pension Plan											438				
Quebec Pension Plan											156				

(1) Seasonally Adjusted at Annual Rates.
(2) Annual Compound Growth Rate.

TABLE 9—GOVERNMENTS REVENUE AND EXPENDITURE—CURRENT DOLLARS (Concluded)
(Millions of dollars)

	1949	1950	1955	1960	1961	1962	1963	1964	1965	1st Half(1) 1965	1st Half(1) 1966	Percentage Changes 1964 / 1963	1965 / 1964	1H 1966 / 1H 1965	1965(2) / 1949
B—EXPENDITURE															
Expenditure on goods and services															
FED	870	977	2,510	2,730	2,982	3,025	2,934	3,046	3,267	3,168	3,642	+ 3.8	+ 7.3	+15.0	+ 8.6
P.M.	1,257	1,367	2,282	4,039	4,254	4,692	5,141	5,608	6,329	6,226	6,930	+ 9.1	+12.9	+11.3	+10.6
Total	2,127	2,344	4,792	6,769	7,236	7,717	8,075	8,654	9,596	9,394	10,572	+ 7.2	+10.9	+12.5	+ 9.9
Interest on the Public Debt															
FED	461	427	494	753	786	866	935	995	1,052	1,044	1,126	+ 6.4	+ 5.7	+ 7.9	+ 5.3
P.M.	111	118	175	342	384	439	488	531	583	572	600	+ 8.8	+ 9.8	+ 4.9	+10.9
Total	572	545	669	1,095	1,170	1,305	1,423	1,526	1,635	1,616	1,726	+ 7.2	+ 7.1	+ 6.8	+ 6.8
Transfers to persons															
FED	583	615	1,232	1,976	2,006	2,112	2,133	2,239	2,316	2,320	2,424	+ 5.0	+ 3.4	+ 4.5	+ 9.0
P.M.	365	415	505	1,144	1,435	1,613	1,715	1,894	2,186	2,094	2,388	+10.4	+15.4	+14.0	+11.8
Total	948	1,030	1,737	3,120	3,441	3,725	3,848	4,133	4,502	4,414	4,812	+ 7.4	+ 8.9	+ 9.0	+10.2
Transfers to businesses															
FED	73	60	75	209	227	287	336	359	343	274	346	+ 6.8	− 4.5	+26.3	+10.2
P.M.	4	3	7	26	30	32	36	46	51	50	38	+27.8	+10.9	−24.0	+17.2
Total	77	63	82	235	257	319	372	405	394	324	384	+ 8.9	− 2.7	+18.5	+10.7
Transfers to other levels of government															
FED	187	251	450	994	1,128	1,134	1,169	1,252	1,427	1,470	1,584	+ 7.1	+14.0	+ 7.8	+13.5
Total Expenditure															
FED	2,174	2,330	4,761	6,662	7,129	7,424	7,507	7,891	8,405	8,276	9,122	+ 5.1	+ 6.5	+10.2	+ 8.8
P.M.	1,737	1,903	2,969	5,551	6,103	6,776	7,380	8,079	9,149	8,942	9,956	+ 9.5	+13.2	+11.3	+10.9
Total	3,911	4,233	7,730	12,213	13,232	14,200	14,887	15,970	17,554	17,218	19,078	+ 7.3	+ 9.9	+10.8	+ 9.8
												Dollar Changes (millions)			
Surplus or Deficit															
FED	+480	+635	+176	−251	−461	−565	−330	+296	+568	+490	+300	+626	+272	−190	+ 88
P.M.	−107	− 50	− 70	−466	−544	−289	−360	−317	−322	−320	−268	+ 43	− 5	+ 52	−215
Total	+373	+585	+106	−717	−1,005	−854	−690	− 21	+246	+170	+ 32	+669	+267	−138	−127
Canada Pension Plan											+438				
Quebec Pension Plan											+156				

TABLE 10—SAVING AND INVESTMENT
(Millions of dollars)

	1949	1950	1955	1960	1961	1962	1963	1964	1965	1st Half[1] 1965	1st Half[1] 1966	Year to Year Changes in Dollars: 1964/1963	1965/1964	1H 1966/1H 1965	1965[2]/1949
Business gross fixed capital formation (incl. value of physical change in inventories)	3,081	3,898	5,521	7,102	6,665	7,492	8,126	9,489	11,372	11,110	12,844	+1,363	+1,883	+1,734	+518
Financed by:															
1. Personal net saving	926	662	850	1,535	1,545	2,317	2,531	2,059	2,927	2,912	3,574	−472	+868	+662	+125
2. Business gross saving (incl. inventory valuation adjustment)	2,037	2,457	4,103	5,199	5,244	5,732	6,264	7,051	7,269	7,138	7,796	+787	+218	+658	+327
3. Government saving (surplus or deficit)	373	585	106	−717	−1,005	−854	−690	−21	246	170	626	+669	+267	+456	− 8
4. Foreign balance	−168	330	679	1,164	911	823	507	412	1,141	992	882	− 95	+729	−110	+ 82
5. Residual error of estimate[3]	− 87	−136	−217	− 79	− 30	−526	−486	− 12	−211	−102	− 34	+474	−199	+ 68	− 8
(in % of total business investment)[4]															
Business gross fixed capital formation (incl. value of physical change in inventories)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0				
Financed by:															
1. Personal net saving	30.1	17.0	15.4	21.6	23.2	30.9	31.1	21.7	25.7	26.2	27.8				
2. Business gross saving (incl. inventory valuation adjustment)	66.1	63.0	74.3	73.2	78.7	76.5	77.1	74.3	63.9	64.2	60.7				
3. Government saving (surplus or deficit)	12.1	15.0	1.9	−10.1	−15.1	−11.4	−8.5	−0.2	2.2	1.5	4.9				
4. Foreign balance	−5.5	8.5	12.3	16.4	13.7	11.0	6.3	4.3	10.1	8.9	6.9				
5. Residual error of estimate	−2.8	−3.5	−3.9	−1.1	−0.5	−7.0	−6.0	−0.1	−1.9	−0.9	−0.3				

(1) Seasonally adjusted.
(2) Average change per year.
(3) The residual error of estimate is shown in total here for analytical reasons.
(4) Columns may not add exactly to 100.0 due to rounding.

TABLE 11—CONSUMER PRICE INDEXES—ANNUAL SERIES
(1949=100)

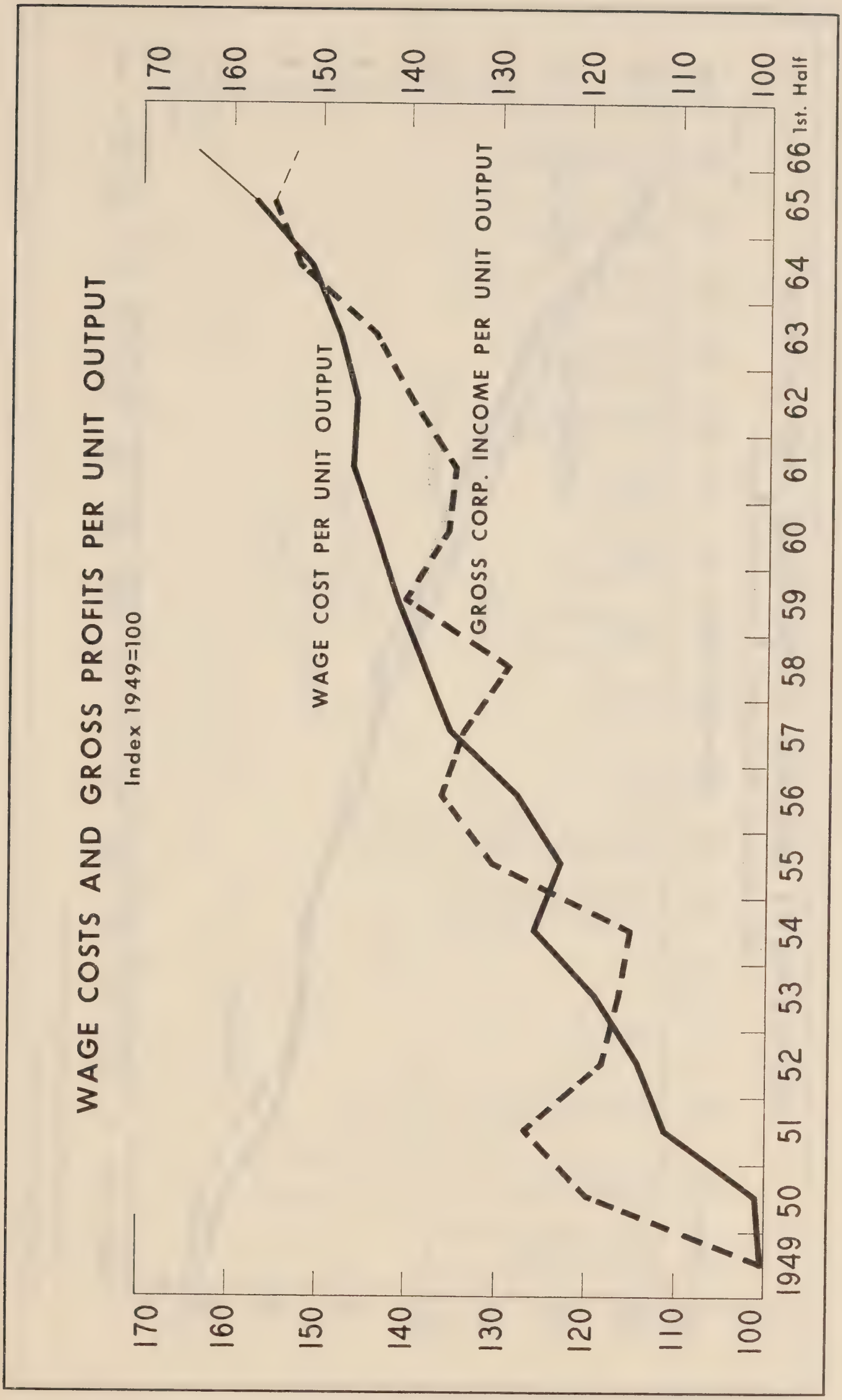
	Weight	1949	1950	1955	1960	1961	1962	1963	1964	1965	Percentage Change per Year 1964/1963	1965/1964	Aug. '66/Aug. '65	1965[1]/1949
MAJOR COMPONENTS														
Food	26.7	100.0	102.6	112.1	122.2	124.0	126.2	130.3	132.4	135.9	+1.6	+2.6	+7.5	1.9
Housing	32.2	100.0	104.1	122.4	132.7	133.2	134.8	136.2	138.4	140.9	+1.6	+1.8	+2.7	2.2
Clothing	11.3	100.0	99.7	108.0	110.9	112.5	113.5	116.3	119.2	121.4	+2.5	+1.8	+3.4	1.2
Transportation	12.0	100.0	105.4	118.5	140.3	140.6	140.4	140.4	142.0	147.3	+1.1	+3.7	+1.8	2.5
Health and Personal Care	6.6	100.0	101.8	126.7	154.5	155.3	158.3	162.4	167.8	175.5	+3.3	+4.6	+3.1	3.6
Recreation and Reading	4.7	100.0	102.0	122.6	144.3	146.1	147.3	149.3	151.8	154.3	+1.7	+1.6	+3.2	2.7
Tobacco and Alcohol	6.5	100.0	102.7	107.6	115.8	116.3	117.8	118.1	120.2	122.3	+1.8	+1.7	+2.0	1.3
Total C.P.I.	100.0	100.0	102.9	116.4	128.0	129.2	130.7	133.0	135.4	138.7	+1.8	+2.4	+3.9	2.1
A—COMMODITIES														
Total commodities		100.0	102.0	111.4	119.4	120.0	121.0	123.1	124.7	126.7	+1.3	+1.6	+4.1	1.5
Total commodities ex. food		100.0	101.6	111.2	117.7	117.8	118.1	119.0	120.2	121.5	+1.0	+1.1	+1.9	1.2
Durable commodities		100.0	101.7	113.2	118.2	116.1	115.3	115.5	114.5	114.6	−0.9	+0.1	+0.2	0.9
Non-durable commodities		100.0	102.0	111.1	119.5	120.7	122.1	124.6	126.7	129.2	+1.7	+2.0	+5.0	1.6
Non-durables ex. food		100.0	101.6	110.6	117.6	118.3	119.1	120.3	122.4	124.1	+1.7	+1.4	+2.6	1.4
B—SERVICES														
Total services		100.0	105.6	131.5	153.4	155.4	157.6	159.8	163.8	170.6	+2.5	+4.2	+3.4	3.4
Services ex. shelter		100.0	103.9	130.2	159.4	162.5	165.9	169.2	175.4	186.2	+3.7	+6.2	+4.0	4.0

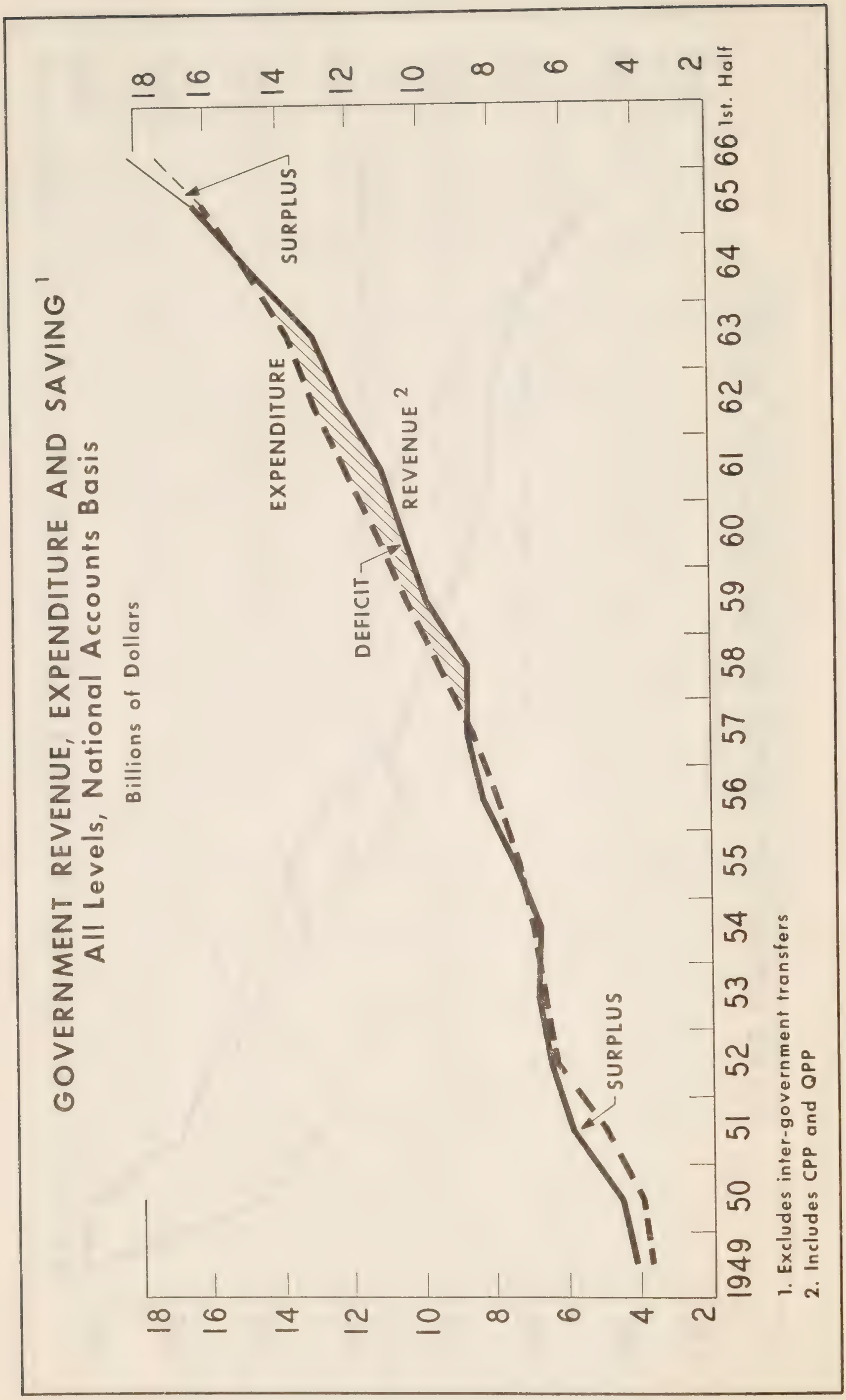
(1) Compounded annual growth rate.

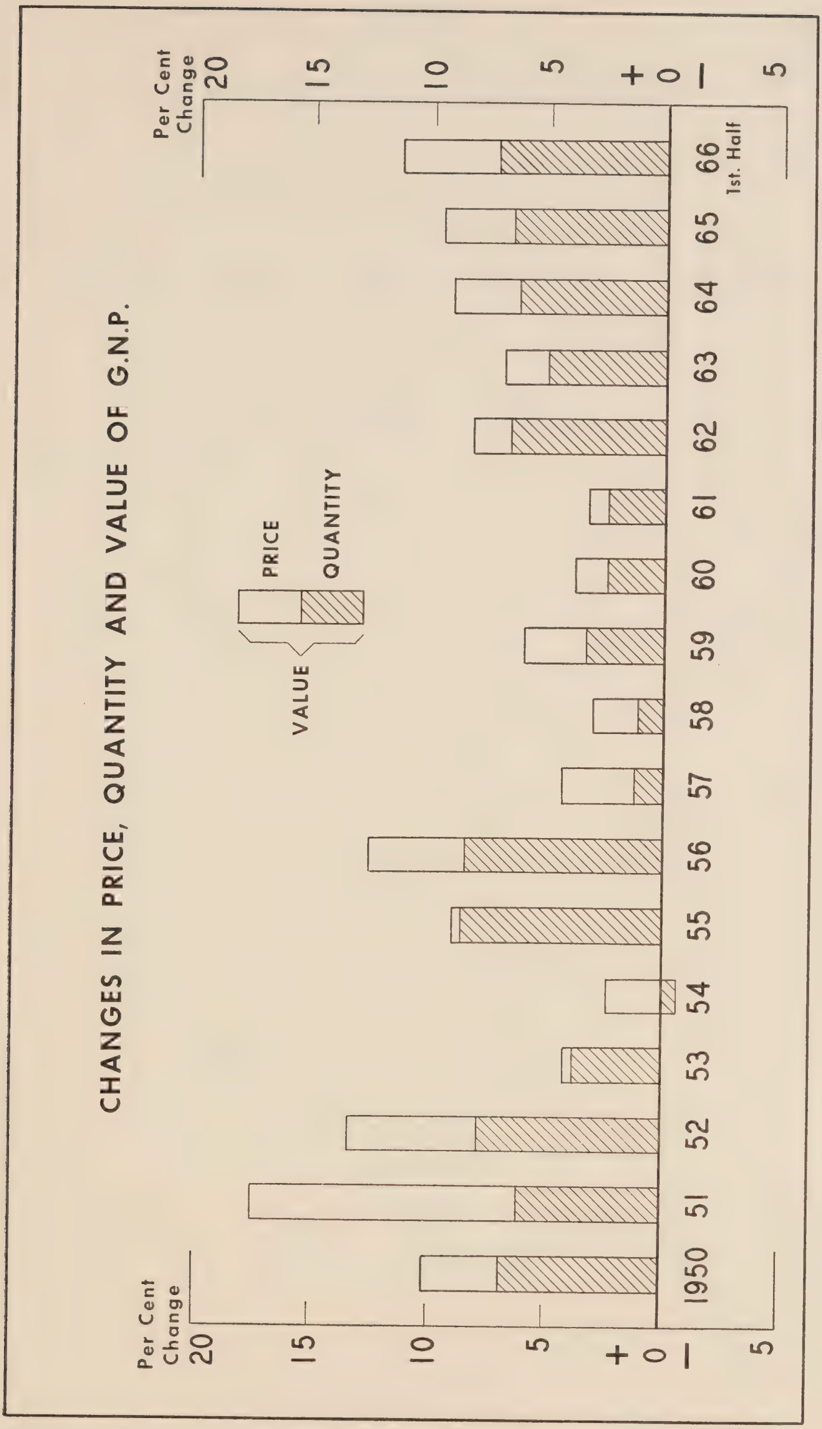
TABLE 12—CONSUMER PRICE INDEXES—MONTHLY SERIES
(1949=100)

		1965												1966							
	Weight	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A
MAJOR COMPONENTS																					
Food	26.7	132.5	133.1	133.3	133.4	134.5	137.6	139.0	137.8	136.4	135.7	138.2	139.6	140.6	142.5	143.4	143.7	143.8	144.2	146.0	148.1
Housing	32.2	139.8	140.1	140.2	140.3	140.5	140.6	141.1	141.2	141.5	141.6	142.0	142.4	142.9	143.1	143.3	143.8	144.2	144.4	144.8	145.0
Clothing	11.3	119.2	119.5	120.4	121.2	121.0	121.1	121.1	120.7	121.4	123.2	123.7	123.8	122.7	123.3	124.2	125.3	125.0	125.3	125.2	124.8
Transportation	12.0	146.3	146.3	145.6	145.9	146.8	147.0	147.0	147.9	148.7	148.7	148.7	148.8	149.1	150.0	150.0	150.7	151.1	151.2	151.2	150.6
Health and Personal Care	6.6	173.3	173.5	173.5	175.0	175.6	175.4	175.4	175.8	176.0	177.0	177.9	177.9	178.1	178.1	178.1	179.2	180.7	181.2	181.0	181.3
Recreation and Reading	4.7	154.0	153.4	153.4	153.5	154.6	155.0	154.6	154.6	154.0	154.2	155.0	155.4	155.4	156.4	156.6	157.6	159.2	159.3	159.3	159.6
Tobacco and Alcohol	6.5	121.7	121.8	121.9	121.9	122.5	122.5	122.5	122.6	122.6	122.6	122.3	122.3	123.1	123.4	123.4	125.0	125.1	125.1	125.1	125.1
Total C.P.I.	100.0	136.9	137.2	137.3	137.7	138.0	139.0	139.5	139.4	139.1	139.3	140.2	140.8	141.2	142.1	142.4	143.2	143.4	143.8	144.3	144.9
A—COMMODITIES																					
Total commodities		124.9	125.1	125.6	125.7	126.4	127.4	128.0	127.2	126.9	127.2	128.0	128.5	128.7	129.5	130.2	130.9	131.3	131.7	132.1	132.4
Total commodities ex. food		120.9	120.9	121.1	121.3	121.4	121.3	121.4	121.3	121.6	122.1	122.4	122.5	122.2	122.5	122.8	123.9	124.0	123.9	123.9	123.6
Durables		115.0	114.7	114.6	114.7	114.6	114.6	114.5	114.3	114.4	114.4	114.5	114.6	114.1	113.9	114.1	115.3	115.4	115.3	115.3	114.5
Non-Durables		126.8	127.3	127.7	127.9	128.8	130.2	130.7	129.8	129.3	129.8	130.7	131.3	131.7	132.7	133.5	134.1	134.6	135.1	135.6	136.3
Non-durables ex. food		123.0	123.3	123.5	123.8	124.1	123.9	124.1	123.9	124.3	125.1	125.3	125.4	125.3	125.8	126.1	127.1	127.1	127.1	127.1	127.1
B—SERVICES																					
Total services		168.6	168.8	168.5*	169.2	170.0	170.3	170.6	171.5	171.9	172.3	172.6	173.0	173.4	174.1	174.6	175.0	176.1	176.7	177.0	177.3
Services ex. shelter		183.4	183.6	183.1*	184.2	185.6	185.9	186.3	187.6	188.2	188.6	189.2	189.6	190.3	191.3	191.9	192.5	194.1	194.8	194.8	195.1

* Revision based on an adjustment from October 1964 in the prepaid medical care component resulting from revised weights for Quebec and Ontario.


WAGE COSTS AND GROSS PROFITS PER UNIT OUTPUT
Index 1949=100
WAGE COST PER UNIT OUTPUT
GROSS CORP. INCOME PER UNIT OUTPUT
170
160
150
140
130
120
110
100
1949
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
1st. Half


GOVERNMENT REVENUE, EXPENDITURE AND SAVING 1
All Levels, National Accounts Basis
Billions of Dollars
EXPENDITURE
REVENUE 2
DEFICIT
SURPLUS
SURPLUS
18 16 14 12 10 8 6 4 2
1949 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 1st. Half
1. Excludes inter-government transfers
2. Includes CPP and QPP



CHANGES IN PRICE, QUANTITY AND VALUE OF G.N.P.
PRICE
QUANTITY
VALUE
Per Cent Change
20
15
10
5
+
0
–
5
1950
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
1st. Half

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 3

THURSDAY, SEPTEMBER 29, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. S. Ron Basford, M.P.

WITNESS:

Professor E. P. Neufeld, Dept. of Political Economy, University of Toronto.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

24051—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

For The Senate

Hon. David A. Croll, Joint Chairman

The Honourable Senators

Carter
Croll
Davey
Deschatelets
Hastings
Hollett
McDonald (*Moosomin*)
McGrand
O'Leary (*Antigonish-Guysborough*)
Thorvaldson
Urquhart
Vaillancourt—(12)

For The House Of Commons

Mr. S. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand
Andras
Basford
Bell (*Saint John-Albert*)
Cameron (*Nanaimo-Cowichan-The Islands*)
Cashin
Clancy
Coates
Crossman
Deachman
Duquet
Hees
Irvine
Leblanc (*Laurier*)
Lefebvre
Macdonald (*Rosedale*)
Mandziuk
Matte
McCutcheon
Nasserden
Olson
Otto
Ryan
Saltsman—(24)

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the votes and proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966," where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

LEON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

24051—1½

MINUTES OF PROCEEDINGS

THURSDAY, Sept. 29th, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.00 a.m.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*) Hastings, McDonald (*Moosomin*), McGrand, O'Leary (*Antigonish-Guysborough*), Thorvaldson and Vaillancourt.—8

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Bell (*Saint John-Albert*), Cameron (*Nanaimo-Cowichan-The Islands*), Clancy, Olson, Otto and Saltsman.—8

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

Professor E. P. Neufeld, Department of Political Economy, University of Toronto, was heard.

At 1.15 p.m. the Committee adjourned until Tuesday next, October 4, at 9.00 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Thursday, September 29, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: I see a quorum, and I call the meeting to order. Dr. Warren James, our special assistant, has a statement to make in connection with the meetings, which will be of interest to you.

Dr. Warren James, Consultant, Special Joint Committee on Consumer Credit: Gentlemen, the present schedule of meetings can be summarized as follows:

On the morning of October 4th, next Tuesday, the Department of Agriculture will make a general statement on the agricultural situation, and this will be supplemented by a particular review of the situation in poultry products. We expect that Mr. Davey, the Director of the Poultry Division, will be the subject matter specialist.

Then on Thursday morning Mr. Ralph Bennett, of the Livestock Division will be dealing with the situation in the various livestock markets.

On Thursday afternoon Mr. H. K. Leckie, General Manager of the Meat Packers' Council of Canada, will come to outline what the trends have been in the meat packing industry.

Then on Tuesday morning, October 11th, the Department of Agriculture will deal with the dairy products situation.

In the afternoon of Tuesday, October 11th Mr. Rasminsky, the Governor of the Bank of Canada, will deal with the general question of monetary policy in Canada.

On Thursday, October 13th, in the morning, again we will hear from the Department of Agriculture, on the fruit and vegetable situation.

In the afternoon of October 13th Mr. Alan Holmes and his staff will give an exposition of the consumer price index, its composition and behaviour. Mr. Alan Holmes is the Director of the Prices Division of the Dominion Bureau of Statistics.

Then in the following week, beginning on Monday, October 17th, we have invited representatives of the major retail chain stores to appear, but the precise timing is not yet fixed.

Then in the following week, beginning on Monday, October 24th, we expect to have a representative group of wholesale grocers appear to give their views on what the present situation is.

That takes the schedule up to October 27th, and there are some other hearings planned, but the precise dates are not yet established.

Co-Chairman Senator CROLL: Gentlemen, we are privileged this morning to have as our witness Professor Edward Neufeld who was born and grew up in Saskatchewan. He is a graduate of the University of Saskatchewan with the degree of Bachelor of Arts, with honours, in Economics.

He went to the London School of Economics and Political Science on a scholarship and was graduated from it with the degree of Doctor of Philosophy in Economics in 1954. His Ph.D. thesis was published in revised form under the title "Bank of Canada Operations and Policy".

Professor Neufeld worked with the Bank of England for about two years, and then accepted an appointment in the Department of Political Economy of the University of Toronto in 1955, and at present he holds the position of Professor of Economics in that department.

His area of special interest is monetary economics, capital markets, and economics stabilization policy. He has written numerous articles in the general area, and recently compiled the volume "Money and Banking in Canada".

He was recently at the University of Saskatchewan where he partook in the discussion on consumer credit. I heard him with a great deal of interest and suggested he might be helpful to this committee.

Professor Neufeld?

Professor Edward P. Neufeld: Thank you, Mr. Chairman. It is a great honour for me to appear before this important Joint Committee of the Senate and the House of Commons. The committee, I understand, has recently been instructed to "...enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months..." I have no doubt that its deliberations will lead to a fuller and more general understanding of the true nature of this important economic issue.

I was asked if I would direct some of my comments towards the matter of external influences on the cost of living in Canada. This I am pleased to do. Since I had only about a weekend in which to prepare these comments, you will forgive me if they are brief. For that matter, you might even thank me.

What I would like to do is, first, to compare Canada's recent price increases with those of a number of other countries, and then outline the implications for Canada of international price increases and comment on the significance of those implications for Canadian economic policy, after which I want to go on to compare Canada's price experience with that of the United States, and, finally, I would like to offer some views on the appropriations of current Canadian economic policy.

Our discussion of the problem of inflation in Canada might gain a certain perspective if we begin by comparing Canadian price increases with those of a number of other countries. I refer you to Table I at the back of these comments, in which I have listed 27 countries in ascending order of the cost of living increase they experienced from May 1958 to May 1966. As you can see, in the first column the table shows the percentage increase in the cost of living each country experienced over that period. The second column shows the increase over the most recent twelve months period.

The countries listed, as you can see, include all those of Western Europe, North America, some of the larger or more wealthy Commonwealth countries, some other countries with which Canada has close trade ties such as Japan, and a few others.

I think two rather interesting points emerge from the comparisons outlined in that table. First, the increase in the cost of living in Canada from 1958 to May 1966, which amounted to about 15 per cent, was smaller than in any other country shown except for the United States, in which the cost of living rose by 12 per cent. If you go down the list you can see that there is a wide range in the distribution of the percentage increases in prices. All the European industrial countries, which for some purposes might be appropriate comparisons, have experienced price increases well in excess of the price increases in Canada.

The second point that emerges is that over the twelve month period ended May 1966 nine of the countries, including the United States, had a smaller increase in the cost of living than did Canada. Canada on that table is shown as having a cost of living increase of 4 per cent. I want to say straight away that this is as of May. If you take the most recent figure, that 4 per cent becomes closer to 3 per cent. So, things have not been getting worse; they have been getting a little better, and there will not be as many countries having a smaller increase than Canada in the last 12 months if we take the 12 months ending in August rather than in May.

Obviously, by international standards, Canada has not had serious inflation over recent years. However, when it is remembered that Canada had substantial unemployment over some of those years—whereas many of the other countries did not—that the United States has had slightly lower price increases than Canada, and that in the last year or so prices have risen less in some other countries as well, it would seem that there are sufficient reasons for pursuing the matter somewhat further. I suppose one could summarize this by saying: Well, let us not get panicky, but let us look some more. First, however, I would like to outline why foreign price movements are important for Canada.

When the prices of our imports rise because of inflation in other countries, or because of a devaluation of the Canadian dollar—a point to be made straight away—it will affect our cost of living directly because some of the goods imported are consumer goods. It will almost certainly affect them after a certain period of time through their effect on Canadian costs, since some of the imported goods enter into Canadian production cost. The latter may be viewed as a form of "cost-push" inflation—"import-price-push" alongside the more familiar forms of "wage-push" and "profit-push" inflation. While one cannot say with certainty by how much Canada's consumer price index will rise as a result, say, of a one per cent rise in import prices—this, frankly, is quite a controversial area—with everything else remaining the same, it does seem that the relationship between the two is significant; at least, it seems to be to me. This seems particularly to be the case in the relationship between United States prices and Canadian prices.

What this means then is that if Canada wishes to maintain a stable consumer price level when consumer prices in other countries are rising, it will actually have to pursue a policy of forcing domestic prices down so as to offset the effect on the price level of higher import prices.

Now, you might think that such a policy would be a sensible one. The trouble is that it would seem to lead to two important consequences, and consequences which the nation might not at all be prepared to tolerate. These consequences relate to its effect on employment, and on the balance of international payments and exchange rate.

There seems to be considerable evidence that because of numerous factors —such things as bottle necks, the nature of collective bargaining in wage determination, inadequate price competition in some sectors, and other rigidities—it is at present possible to obtain complete price stability only with considerable slack or unemployment in the economy. Therefore, a policy of actually trying to drive domestic prices down to completely offset the effect of rising import prices might well lead to intolerably high unemployment.

As I have already implied it would also lead to certain exchange rate and balance of payments consequences. In the short-run the "tight money" policy that it implies would cause a capital inflow, and, with a fixed exchange rate, would require an accumulation of exchange reserves; while after a period, when Canadian prices had fallen well below those of other countries, it would lead to a need to accumulate reserves or export capital because of exports exceeding imports.

Now, a policy of continuously accumulating reserves or exporting capital is neither practicable nor desirable on economic grounds. It would reduce the rate of real capital formation in Canada and so reduce Canada's rate of real economic growth. Chances are that a policy of building up such an export trade surplus would create upward pressure on the Canadian dollar to the point that upward re-evaluation would become necessary, since continuous accumulation of reserves would not be possible. If that were to happen then the increase in the exchange rate would provide at least partial protection against foreign price increases, making possible a less restrictive domestic policy. What the chances would be of having adjustments in the exchange rate by letting it float or otherwise managing it, so that it would just exactly neutralize the impact on Canada of foreign price increases, cannot be known. I doubt that they would be very great.

In any case, it must be emphasized—and I think this is the main point to be made here—that that happy state will only have been reached after a period of domestic deflation and unemployment. At least, in my view, the chances are that this is about what would happen.

One conclusion that follows is that a policy of completely shielding the Canadian price level from the effects of higher import prices, in a world in which those prices seem to be rising persistently, would probably involve accepting a higher level of unemployment than would otherwise be the case, and eventually would require a quite different exchange rate system than the one Canada has now.

The question I ask is, what does this imply for Canadian economic stabilization policy? It implies that as long as world prices are rising, Canadian stabilization policy should probably not be so restrictive as to create price stability in Canada. In place of the phrase "world prices" we might just as well have used "U.S. prices" because of the predominant influence of the latter on Canada's import prices.

At the same time, to permit Canada's prices to rise persistently faster than world or U.S. prices would eventually lead to the reverse of what I have already outlined, that is, flight of capital, loss of reserves, increased trade deficit, further loss of reserves, exchange rate devaluation.

So that barring certain peculiar or special situations in Canada or the United States, and such other situations one can always think of that might interfere with the general processes I have referred to and assuming that Canada on the one hand does not wish to pursue a policy of higher unemployment and upward drift of the exchange rate, or, on the other hand, one of persistent exchange rate devaluation, its minimum price objective over the long term should be to keep prices in line with U.S. prices.

With these general points in mind, permit me now to explore the matter of Canada and U.S. price experience somewhat more closely than I have done up to this point, so as to obtain a better impression both of Canada's price experience, of the forces that have been behind it, and of the extent to which Canada has met the minimum price objective referred to in the preceding paragraph.

Reference here should be made to Table II. Table II shows that from 1958 until August 1966 Canadian consumer prices rose by almost 16 per cent, and U.S. consumer prices by 13 per cent. That is not a very big difference. Column 6 of that table shows further that since January of 1966 there has been no additional deterioration, that is, increase in Canadian consumer prices in relation to U.S. prices. Since January the ratio has been 102.5 somewhat consistently. So it was from 1963 to January 1966 that the deterioration occurred. Since January 1966 there has been no further deterioration of Canadian consumer prices in relation to U.S. consumer prices.

Examining the movement of the wholesale price index we find that from 1958 to August 1966 these prices rose by 14.3 per cent in Canada and by 6.1 per cent in the United States—a more substantial difference. However, column (3) suggests that the peak of the Canadian price deterioration was reached in February 1966. It was in February 1966, as you can see from column (3) that the ratio of Canadian wholesale prices to U.S. wholesale prices was 108.6, and after that it has come down from that high ratio. After the early part of 1966 U.S. prices rose faster than Canadian prices, so that the August 1966 Canada-U.S. wholesale price relationship was about the same as it had been since 1963.

If you look at the ratio in column (3), it shows that from about 1963, 1964, 1965 the ratio was about 107.5 and 107.6, whereas in 1966, right at the bottom of the column, it was 107.7—not very different; so there has not been much change since 1963.

Before I comment specifically on why Canadian prices have risen more than U.S. prices, it may be worth showing how some of the components of the consumer and wholesale price indexes have moved in the recent past.

Actually, we are going to hear a lot more about this, and I will not bother to pursue it now, but reference here should be made to Table III.

The most significant generalization that can be made is that with the exception of consumer durable and non-durable goods, the major consumer and wholesale prices all rose more in Canada than in the United States. The greater increase in Canadian farm product prices as compared with those of the U.S. is to be noted, as is the greater price in the price of consumer services and industrial goods in general. Building material prices in Canada rose more than wholesale prices in general.

The figure for farm prices, you should not take seriously, because U.S. prices were very high in 1958. However, I put it in for the sake of completeness, but ask you not to take that relationship seriously.

It seems therefore that whatever was the cause of higher prices in Canada, it was one that spread its effect fairly widely among the wholesale and retail goods and services, excluding only consumer durables and consumer non-durables, except food, which together account for 43 per cent of the consumer price index. It was not just food that rose in price, but also a number of industrial and consumer goods and services.

Forces behind the price increases: Earlier I noted that it was from 1960 to 1963 that Canadian wholesale prices rose substantially more than U.S. wholesale prices, as is shown in Table II.

Now, I would point out that column (7) of that table shows that over the same period import prices took their big jump, and columns (8) and (9) show that back of that increase in import prices was the devaluation of the Canadian dollar; from 1960 to 1963 wholesale prices rose by 6 per cent, import prices by 12 per cent and the U.S. dollar in terms of the Canadian dollar by 11 per cent.

Furthermore, over that period unemployment remained high, as is shown in table 4, where I show the unemployment level in Canada and the United States, suggesting no real scarcity pressures in the economy; and from 1958 to 1962 there was no more improvement in the level of unemployment in Canada than in the United States which would seem to imply that the relatively greater price movements in Canada were not explained by any swifter movement in Canada toward a situation of scarcity than in the United States. For all these reasons it seems plausible that the initial Canadian price deterioration vis-a-vis U.S. prices, that is, the rise in wholesale prices from 1960 to 1963, arose essentially from the devaluation of the Canadian dollar. It seems also that after the devaluation had been completed there was no further deterioration in Canadian wholesale prices on balance in relation to U.S. wholesale prices.

I have to admit frankly that in the last year or two there has been some controversy on the effect of import prices, including the dollar devaluation, on

price levels in Canada. From all the evidence I see, and from the way the statistics look, it seems to me that devaluation did have a significant effect on Canadian prices, and particularly in the first instance on wholesale prices.

After the devaluation, and possibly in part because of it, another factor seems to enter the scene to help explain why Canadian prices (this time consumer prices) rose faster than U.S. prices: this factor is the more rapid move toward full employment and economic scarcity in Canada than in the United States. Would you turn to table 4, column 3, which shows the ratio of Canadian unemployment to U.S. unemployment. It shows that from 1958 to 1962 the Canadian and U.S. unemployment situations remained very similar. However, beginning in 1963 and continuing on until about October 1965 Canadian unemployment declined substantially faster than U.S. unemployment. Since considerable evidence has been accumulated that suggests there is a close relationship between the relative level of unemployment and the rate of increase in prices, it also seems plausible that Canadian prices rose faster than U.S. prices because of the more rapid move to low unemployment levels in Canada than in the United States.

Since October 1965 the aforementioned trend was reversed, as you can see again from table 4, column 6, with Canadian unemployment tending to rise on balance and U.S. unemployment down slightly, although stable since about January 1966. It will be recalled that since January 1966 Canadian consumer prices have not risen faster than U.S. consumer prices.

Why is it that there is an apparent relationship between the relative level of unemployment and the rate of increase of prices? No one knows for sure, but it seems sensible to think that it probably arises from increased bargaining power of labour as labour gets scarce; the appearance of supply bottlenecks which cause certain prices to rise while sticky prices generally prevent an offsetting fall in other prices; and the increased ease with which business can raise prices when supplies are short, and particularly in industries in which there is inadequate competition. Unfortunately I have not had the time to estimate the relative importance of these various influences, for it is a very complex task. However, I understand that the Economic Council of Canada is working in this area. I have no doubt that, when representatives of the Economic Council speak to this committee, they will enlighten the committee on this very important subject matter. For what it is worth it may be noted that from 1958 to April 1966 average hourly earnings in manufacturing in Canada rose 4.1 percentage points more than in the United States, while consumer prices rose 2.5 percentage points more. Even if productivity increases in Canadian manufacturing were as high as those in the U.S., this might suggest—and I put it no more strongly than that—that wage increases here have tended not merely to match productivity increases and consumer price increases, but to exceed them. It is to be noted that average hourly earnings in manufacturing in Canada really began to move ahead of those in the U.S. in 1965 and early 1966. Whatever effect recent very substantial wage increases will have on this trend cannot yet be seen in the figures that are available.

To summarize, it seems to me that the greater increase in prices in Canada than in the United States stems largely from the devaluation of the Canadian dollar, and the rapid acceleration of business in Canada, in comparison with the United States; and that in recent months the increase in wages in Canada in relation to those in the United States may have produced an inflationary effect through cost-push processes.

I suppose it is pertinent to ask now whether Canada should have devalued the dollar and suffered the price increases. Since those price increases in relation to U.S. price increases have not been all that large in the consumer field, not a strong case against devaluation can be made on that score, perhaps.

However, crude figures suggest—and I am sure that the Economic Council will provide better figures—that since 1963 unit labour costs in Canadian manufacturing have risen by perhaps 3 per cent or 4 per cent more than in U.S. manufacturing which, if true, would mean that Canada is gradually losing whatever advantage it gained from devaluation. In this way we are "revaluing" our dollar through permitting our costs and prices in Canada to rise relative to those in the United States.

If the Government permits that process to continue it is implicitly admitting that it was a mistake to fix the dollar permanently at U.S. $.925; or if it argues that it was not a mistake, it has to accept the possibility that the value of the dollar has now been weakened; or finally, and alternatively, it has to admit that it was prepared to fix the dollar at an arbitrarily low value, accept the temporary (and beggar-thy-neighbour) advantages of such a move, and permit those advantages to disappear and the rate to be readjusted by domestic inflation of prices and costs. When these alternative explanations are contemplated it no longer seems so certain that it was good for Canada to devalue the dollar and permanently fix its rate of exchange, and endure the increase in the Canadian price level that it involved. I have not said nearly all that could be said on that score, but I think it is an issue that the nation should face directly.

What are the Implications for Economic Policy? We have noted that in recent months Canadian prices have not been rising faster than U.S. prices. We have also noted that in recent months the Canadian economy has not been speeding ahead of the U.S. economy as it did earlier. A whole host of indicators, which I will not outline here, suggest that there has been a slowdown of consumer and capital spending. A combination of monetary restraint (including very high interest rates) and the restraint of a persistent increase over the last several years in the Government sector surplus (on a national accounts basis) seem to have brought excess spending under control. There does not at present seem to be any need to press restraint further, but at the same time it would in my view be permature at this stage to assume that an economic down-turn is imminent and that monetary and fiscal policy should be made easy. Such a move, if the forecast proved wrong, would form the basis for a renewed round of inflation. As far as "demand-pull" inflationary forces are concerned, policy at present, in my view, should be one of wait and see—and this does not mean for a long period of time, because conditions can change quickly.

This, however, should not be the policy with respect to "cost-push" inflation. I have suggested that over the last year or so wage increases may well have tended to exceed productivity increases and past consumer price increases combined—while acknowledging frankly both the inadequacies of the statistics and the complexity of the wage-cost-price relationship. I do not think definitive answers as to the nature and relevance of that relationship will soon be forthcoming, although I think we might know more about it fairly soon. For this reason I think Canada should assume that "cost-push" inflation is a problem and should begin developing a system of techniques to deal with it. It is quite conceivable that its record vis-a-vis the U.S. with respect to price increases would have been better in the past and would be better in the future if a system of wage-price guidelines had existed.

The main advantage I see of a system of wage-price guidelines is that it would encourage intelligent discussion of the relevant economic issues between management and labour. It would not be a system that would replace fundamentally the present approach to wage and price changes. One part of such a program should be a detailed and regular report, with appropriate charts, and widely distributed, of the price changes that industry has effected. A way should be found—and I am not convinced this is perhaps the best way—to bring public opinion closer to the price-setting practices of all industries.

No longer is it a matter of arguing whether government should become involved in the procedure. It has already become deeply involved, both through the incredible wage settlements of recent months, and through its action concerning steel prices. It is now a matter of whether that involvement will be haphazard, probably ineffective and possibly damaging to the flexibility of the price-oriented economy, or whether it will be systematized, essentially in harmony with the character of the economy, and effective in reducing "cost-push" inflationary forces.

If you wish, I will just quickly run through the main points I have been trying to make. There are eight of them.

1. By international standards Canadian prices have been remarkably stable, but they have risen more than U.S. prices.

2. Foreign price increases, particularly U.S. price increases, tend to push up Canadian prices.

3. Unless special situations exist, to try to insulate Canadian prices from U.S. price increases would probably lead to increased unemployment and slower economic growth in Canada.

4. Therefore a rule of thumb, albeit a crude one and open to exceptions, for our policy makers should be to keep Canadian prices and costs in line with U.S. prices and costs.

5. A number of Canadian prices over the last several years have increased more than U.S. prices, although in 1966 they for the most part have not done so.

6. The main reasons for the faster increase in Canadian prices seem to have been the Canadian dollar devaluation and the more rapid move in Canada, until recently, toward full capacity including low unemployment.

7. It seems both from statistics already available and from recent wage settlements that are not yet reflected in the statistics, that wage-push inflation may be a more serious problem in Canada than in the United States.

8. While excess spending forces appear at present to be fairly well under control, it should not be assumed that new techniques will not be required to control "cost-push" inflationary forces. Government should now move systematically forward in this area rather than continue to pursue all ill-defined, unpredictable, and possibly ineffective approach to the problem.

Thank you, Mr. Chairman.

Co-Chairman Senator CROLL: I believe Mr. Olson has some questions to ask.

Mr. OLSON: I would like to ask Dr. Neufeld for a little explanation of what he says in his summary in paragraph 8, where he says that

"spending forces appear at present to be fairly well under control."

Professor NEUFELD: Yes.

Mr. OLSON: What leads you to believe that these spending forces, or excess spending forces, are now under control? Do the statistics indicate that this has dropped off recently or is this a diminution of the capital available for this?

Professor NEUFELD: I think there are now a number of statistics that suggest that the rate of spending has levelled off.

Mr. OLSON: Since when?

Professor NEUFELD: I would say since about February or March. I think that this began with weakness in housing, which extended it to weaknesses in other durable goods. It also, then, went into cars. Since about the beginning of this year there has been weakness in cars, and for the last 5 or 6 months there has not really been any further increase in the level of non-residential building

permits, which leads me to believe that now, probably, there has been a slowdown even in non-residential construction.

Therefore, I think that it is now doubtful that the Spending Intention Survey that was published at the beginning of the year is going to be met. For all these reasons, including now the second quarter national accounts statistics —a copy of which did not reach me before I came to this Committee, but a report of which I read in the newspapers—including, I would say, the national accounts, I suggest that there was very little real growth in the second quarter.

Senator THORVALDSON: This is supplementary. Does that apply to both the consumer field and the capital goods field?

Professor NEUFELD: The rate of increase has levelled off in particular areas in the consumer field which have declined substantially, such as cars and certain housing.

Mr. CAMERON: Professor Neufeld, I am rather interested to see that you appear to think that the American rising prices have had a definite effect on Canadian increases in prices. Is that right? You made a study, I believe, for the Porter Commission on this question.

Professor NEUFELD: Not on this question, no. Let me say that the point I was making was that foreign price increases that come about either through foreign prices rising in other countries or through the devaluation of our Canadian dollar, foreign price increases arising from either one of those causes, will have an important effect on the Canadian price level, and, as I have explained, it seems to me in the last months that it is really an increase in foreign prices arising from devaluation of our dollar that has been important.

Senator THORVALDSON: May I comment on that.

Co-Chairman Senator CROLL: I believe Mr. Cameron has a series of questions. Will you just wait until he finishes?

Mr. CAMERON: Then you state that one of the results, probably, of attempting to keep Canadian prices on an even keel with American prices may well be increased unemployment and lower economic growth in Canada. In your third conclusion you say that.

> "unless special situations exist, to try to insulate Canadian prices from U.S. price increases would probably lead to increased unemployment and slower economic growth in Canada."

Professor NEUFELD: To insulate them from, not to keep them the same as, U.S. price increases. To protect them from U.S. price increases.

Mr. CAMERON: How would you propose to protect them from U.S. price increases? By increased unemployment?

Professor NEUFELD: The point is that, if U.S. prices are rising, for whatever reason, and if we decided that we wished to protect our prices from their price increases, we would have to force Canadian prices down, because our import costs would be rising. How would we force Canadian prices down? Presumably by higher taxes, tight money and so on, and this would lead in the first instance to more unemployment.

Mr. CAMERON: So that is not a policy that you advocate.

Professor NEUFELD: No, it is not.

Mr. CAMERON: In No. 8 of your summary and conclusions you appear to be speaking of the efforts that have been made by the government to control certain price increases. I presume you have reference to Mr. Sharp's persuasion, as he calls it, with regard to the steel companies. Is that correct? Then you suggest that the government "should now move systematically forward in this area rather than continue to pursue an ill-defined, unpredictable, and possibly ineffective approach to the problem."

I said yesterday that these were ad hoc and precarious measures. At that time I was suggesting to the Deputy Minister that it was extremely dangerous for the government to rely on these ad hoc precarious moves, and that they should, as you say, move systematically forward.

How would you suggest that they move systematically forward? Would you agree that they might consider the possibility of the imposition of price controls on basic commodities, the costs of which enter into all other costs.

Professor NEUFELD: No.

Mr. CAMERON: What else would you suggest?

Professor NEUFELD: I would oppose strongly a system of price controls. I think they will not work and are undesirable even if they did work.

Mr. CAMERON: Then, what do you propose?

Professor NEUFELD: Let us face it, we are entering a new field, a new area, and we do not know what will work. The point I am trying to make is that we should start something in a systematic manner and see if it will work or not, and—

Mr. CAMERON: What if it will not work?

Co-Chairman Senator CROLL: Mr. Cameron, perhaps you would let him finish.

Mr. CAMERON: All right.

Professor NEUFELD: The policy that I would favour, sir, is the one that would begin with the establishment of wage price guidelines that, in terms of impact on the public, would be very much the same as the U.S. wage price guidelines. The advantages that I would see arising from such guidelines—not controls, but guidelines—are that individual companies and industries and unions would have to justify their demands and their price policies in the light of guidelines that competent and well-respected experts have established. The thing often forgotten about the U.S. guidelines is that they were not established by the United States' President. In fact they were the outcome of a series of studies by the Council of Economic Advisers, and for the most part I think the people on the council, at least in recent years, have been highly respected experts, and if a company or a union wishes to move against the advice of the council, they will at least have to marshall acceptable arguments, and I think that the same could happen here in Canada.

Another point I would make is that it has recently been suggested that because there are cases such as the air line machinists' case where wages were in excess of the guidelines, that the guidelines are not working. I disagree. The settlement there, a 4.9 per cent settlement, is quite different from the kind we have been getting in Canada. It would seem to me that here is a case of the impact of the guidelines in influencing settlements that could be rational and acceptable on economic grounds. The same thing is happening on the pricing side; the fact that some prices have been rolled back is, in my view, a very good thing because it has more and more put the onus on business to justify this price increase on the basis of the guidelines established by people who are regarded as competent in the field.

Mr. CAMERON: Would you tell me, Professor Neufeld, what has been the overall effect in the United States, considering the continuing reports of concern on the part of the American administration—there was another one this morning but you may not have seen it yet—of a continuing inflationary pressure in the United States and the recent move of the President in regard to interest rates to be paid? Does that indicate the success of the guidelines?

Professor NEUFELD: I don't think it indicates failure. The experience there has been better than it has been in Canada. We must keep in mind that we are

dealing with a complex matter, not a single one. We must also remember that the United States' economy had been accelerated because of new military commitments in Viet Nam in a way that the Canadian economy has not been. The result of that new military commitment is a unique factor in the United States economy. Furthermore, the United States has in recent years become accustomed to a very slow price increase and the fact that there has been some greater price increase in recent months is naturally attracting a good deal of attention and concern.

Mr. CAMERON: How do you explain the recent quite disastrous developments as far as my province, British Columbia, is concerned in the very drastic decline in the market for forest products from the British Columbia industry in the United States? This is now causing very severe layoffs in British Columbia. Apparently the stimulus of further expenditure in the United States has not had the effect you suggest and demand has gone down in these various products.

Professor NEUFELD: I am not an expert in the demand for forest products. I think there is evidence that the capital spendings boom is easing off, which would be in harmony with some softness in construction materials. I do not know the details of the British Columbia forest products industry, and I would be giving the wrong impression if I implied I did.

Mr. CAMERON: With respect to your contention which you reiterated in a number of places in your presentation regarding the serious effect of wage increases on the situation in Canada, could I refer you to the table prepared by the D.B.S. I do not know if you have it with you, but I know you have seen it. It is a table presented yesterday by the Deputy Minister of Finance, table No. 6, with regard to the per cent composition of gross national product. Mr. Bryce placed great emphasis on the fact that the component as supplied under "Wages, Salaries and Supplementary Labour Income" had remained almost unchanged from 1949, and this would seem to indicate that the share of labour has not increased at all in the gross national product. How does that square with what you have said?

Professor NEUFELD: That is a very good point. It illustrates nicely the futility of the attempts on the part of labour and management to try to change their share of the income. It is not the fact that permanent changes occur. The problem is that each side tries to change its proportion, and in the outcome the only person that loses is the consumer, and no one gains. As I say, the only person who loses is the consumer and particularly the saver through increased prices.

It is perfectly true, and evidence in the United States proves the same thing, that in the end there is very little change in respect of income proportion. We are dealing with a dynamic situation here in that one side tries to change its share and the other side tries to balance it off, and then the first side again tries to change its share and the second side tries to balance it off again, and so on. This is the kind of process that might well be behind price increases.

Mr. CAMERON: In view of the fact that we have had continual reports from the Economic Council of Canada of the existence in Canada of conditions approaching poverty among some 25 per cent of our population, then would you suggest that the present share, or the way in which the national income is divided, is adequate for our social purposes?

Professor NEUFELD: It raises another issue. The point is this: I do not think you are going to solve the poverty problem by changing factor income proportions because almost certainly the people who have a chance of improving their position are not the poor people but the workers who belong to strong unions. So that if anybody gains, and I doubt if in the long term they will gain, it would be such people. May I add that if one is concerned with the problem of

redistribution of income, the technique for that is not changing income factor proportions, it is through social welfare measures.

Co-Chairman Senator CROLL: The minimum annual income helps in that situation, Mr. Cameron. I just wanted to get that plug in.

Mr. CAMERON: On the other hand, Professor Neufeld, in the Province of British Columbia we have the highest wage levels in Canada and we also have the lowest incidence of this type of poverty of which I have been speaking. There seems to me to be some relationship.

Professor NEUFELD: In that regard I suppose one would have to ask the question: Why is there more poverty in the Maritimes than in British Columbia? As far as I have seen and from the studies I have read they seem to suggest that the reasons for poverty in the Maritimes have existed for many decades. I do not think it can be begun to be explained by the wage capital income proportions that might exist. The problem of regional poverty is not in any serious way related to the problem of these income proportions on table 6.

Co-Chairman Senator CROLL: Senator Thorvaldson.

Senator THORVALDSON: May I first say to Mr. Cameron that so many wealthy people from the Prairies go to British Columbia that the incidence of poverty is lessened there.

Mr. Chairman, through you I want to say to our witness that I think his report is excellent and is most encouraging for this committee in many respects. I am quite amazed to find that we are so close to the United States in our consumer price index level when in fact I thought we were further away, but in that respect it seems we have stayed with the United States fairly closely up until 1964 as shown by table 2. Consequently, I am assuming, and I ask you, Dr. Neufeld, to comment on, the tremendous increase in the Index indicated as between 1965 and 1967 in Canada.

Co-Chairman Senator CROLL: 1966.

Senator THORVALDSON: In Canada it is from 110.9 to 114.5.

Professor NEUFELD: Yes.

Senator THORVALDSON: Which is about 3-1/2 per cent. Whereas in the United States it is much less, about 1.4 or so, I think.

Professor NEUFELD: Yes, it is less.

Senator THORVALDSON: Would that indicate that we are entering a phase of galloping inflation in Canada at the present time, which condition does not exist in the United States, and that being the problem of this committee?

Professor NEUFELD: Well, if you will look down column 6, right to the bottom, where I show monthly figures for the year 1966—

Senator THORVALDSON: On Table II?

Professor NEUFELD: Yes. It shows the ratio of Canadian consumer prices to U.S. consumer prices has been stable since January. You are quite right, it was specifically in the year beginning 1964, perhaps, and then into 1965, and the average of the 1966 Index in that period that the Canadian prices rose faster than the U.S. prices. But at the same time it shows this deterioration vis-à-vis the U.S. ended about January, 1966. Since then our prices have not deteriorated more than United States prices.

I think the pertinent question, therefore, is: Why was it we had this period from about 1963 to 1965, in effect, the end of 1965, when Canadian consumer prices rose faster than U.S. prices? I think that is the crucial question to ask, because after that Canadian prices did not rise faster than U.S. prices.

I think there are three important factors back of that. I think that the wholesale price increase that occurred as a result of devaluation gradually worked its way through into the consumer prices. Second, there was a period

from 1963 to 1964 and 1965 when Canadian economic activity went quite a bit faster than U.S. economic activity, and unemployment dropped quite a bit more in Canada than the U.S., and I think this created price pressures in Canada that were greater than the price pressures in the U.S. The stability in the recent period—and it would be foolhardy to be specific about this, but one should notice that this rate of growth in Canada in relation to the United States has levelled off, and it might well be we are so far away from the devaluation now that whatever effect it has had on prices, has worn thin. So we may well be entering a period when the only thing left to worry about is the possible effect of very large wage settlements.

Senator THORVALDSON: Another question, doctor, in regard to the devaluation of the Canadian currency. I suggest that the increase in the Canadian consumer price index as a result of the deflation seems to amount, from your figures at Table II, to about 3 or 4 per cent, or so, which would be approximately one-third of the actual devaluation on the percentage basis. In other words, one might expect the devaluation—which actually was from the dollar at $1.03 to the dollar at 92½ cents—

Professor NEUFELD: Yes, it works out to 10 per cent.

Senator THORVALDSON: 11 per cent?

Professor NEUFELD: Yes, almost 11 per cent.

Senator THORVALDSON: One might expect the increase in the Canadian consumer price index to increase by 11 per cent as a result of devaluation, whereas it appears only to have increased by 3 or 4 per cent.

Professor NEUFELD: I do not think you would expect it to increase by the whole amount of the devaluation, because imports do not account for all the goods bought in Canada. Their impact is smaller than that. Various estimates have been made. None of them, that I know of, is regarded as a final view on this question as to how much Canadian prices will rise if foreign prices rise.

My own instinct tells me—and that is not a very reliable thing, but it tells me it might be in the nature of one-third or up to one-half. In other words, if foreign prices rise by one, Canadian prices will rise by, say, one-half merely because foreign prices have risen. Do not take this estimate seriously, but I think it is probably of that order.

Senator THORVALDSON: I really do not know what relationship Mr. Cameron's question with regard to the decline in exports of B.C. forest products has to this study, but would it not be accurate to say that is a case of pricing yourself out of a market? In other words, as I see it, there is tremendous additional competition in the forest products industry being provided by the pulp mills in the southeastern United States, and so on, and other places. Would you not say that is merely because of pricing yourself out of a market?

Professor NEUFELD: I really do not know anything about the British Columbia pulp industry or the nature of its markets. I must say I do not think it would be very useful for me to imply that I did.

Mr. ALLMAND: Professor Neufeld, I notice on Table III the prices that have increased the most have been with respect to building materials and then other services. You said that as far as you know there was no particular item that thrust up prices in Canada such as perhaps the Vietnam war did in the United States. But do you think perhaps from 1963 to 1966 that so many of our projects that are for Centennial—including, let us say in the Montreal area, Expo—could have had some effect on forcing up prices in the construction area and the services area?

Professor NEUFELD: It is difficult to point at a particular thing. We know there was a time there in 1965 when the construction boom generally was

proceeding at an unsustainable pace. It was just going flat out at a rate that could not continue.

If you start asking the question: What caused it? Well, the whole thing together caused it. It is true you had Centennial projects, but you had other things happening at the same time. I think I am right in saying that the proportion of capital expenditure in the Government sector has been rising for a little while.

Co-Chairman Senator CROLL: Yes, that is true.

Professor NEUFELD: I think they have been rising.

Co-Chairman Senator CROLL: Yes.

Professor NEUFELD: In that sense I think it would be a sensible statement to make that this general Government sector has been a factor behind the creation of an acceleration in capital spending that was unsustainable.

Mr. ALLMAND: I want to deal a little further with the question asked by Mr. Cameron with respect to some way of controlling prices.

On page 10, at the end of your second paragraph, you say:

> "A way should be found to bring public opinion closer to the price-setting practices of all industries."

I think you made the comment at that time, "but not this kind of a committee."?

Professor NEUFELD: No.

Mr. ALLMAND: You did not?

Professor NEUFELD: No. I think the comment I made was that I was not quite sure the technique I proposed for doing this would be the appropriate one. What I had in mind was a simple publication with charts kept up to date which will show what prices are doing in various industries. I have from time to time been interested in this and every time I want to find something out I have to spend a day looking for it somewhere.

Mr. ALLMAND: You said, in answer to Mr. Cameron, companies and unions would have to justify their position before they went beyond the guidelines. What group had you in mind? Do you envisage a price review board?

Professor NEUFELD: Well, I think, as I mentioned before, this is an area in which one has to learn as one goes on. My hope would be—perhaps it is a futile one—that the justification in the first instance would be before public opinion. If the public has the information, and if it is known that the major price increases and wage increases must be justified on rational economic grounds, then in this way it might be that public opinion will have a greater impact on these prices. That is where I would start to try to bring public opinion to bear on the price setting and wage setting mechanism, and see if that works, and if it does not work then something in the nature of a wage review board and a price review board would be tried next.

Mr. ALLMAND: I forgot to mention one other thing. I was looking for specific items that might have pushed up prices in the last few years, and I thought of centennial projects. I was wondering what you thought of our wheat sales in the farm sector, which have taken up nearly all of our crop. I was wondering what effect they might have had on food prices.

Professor NEUFELD: They certainly had a good impact, coming from Saskatchewan, on farm income. I see nothing wrong with this. I think this is a very good thing, but you would get much more useful answers from the representatives of agriculture who are going to appear before you. My instinct tells me: Yes, there is something in what you say, but I do not have the knowledge to support this instinct.

Co-Chairman Senator CROLL: Mr. Otto, and then you, Mr. Saltsman.

Mr. OTTO: Mr. Chairman, I should like to ask four questions. My first two or three questions will be dealing with your brief, Dr. Neufeld. You state on page 3 in this whole paragraph on import-price-push that inflation in the United States naturally has an effect on the prices that Canadians pay, but will you acknowledge that imports can be divided into two categories? There are those goods and services that we must import, and then there are those goods and services which we need not necessarily import and which are subject much more to the cost factor and to the question of whether Canadians can afford them. There are two classes within that one class that you are talking about, are there not?

Professor NEUFELD: I would not myself support such a classification. When one uses the phrase "some things that we must import", I do not know in quite what sense it is used. It is true that we must import bananas because we do not grow them here, but, at the same time, why do we have to eat bananas? We can eat something else. I think that principle applies to almost anything you can think of. This business of our having to import something is, I think, not nearly as simple as that.

I think what we have to do is say: "Look, we are a people who enjoy a certain level of income and a certain standard of living. Having this income level, there are certain things that we want to buy". Within the terms of that simple proposition it is very difficult to say: "Therefore, let us not import that, but let us import this". I think there is no rational foundation for saying that we must import that, but we need not import this.

Mr. OTTO: I agree that there is no rational explanation, but let us take grapefruit and bananas, for instance. Our society is so geared today that one would think that without grapefruit and without other fresh fruit in the wintertime our children would not be getting proper nutrition, and so it is acceptable. In other words, you find it very difficult to convince Canadians, or any one on the North American continent, that these are not essential, whereas it would not be too difficult to convince Canadians that a trip to Florida is a non-essential thing or, in other words, that the money so spent is money spent elsewhere. I think there is a classification between those two. Or, you can put it in this way, that industry must import certain parts or production goods that are not available here.

Professor NEUFELD: What do you say to the man who says: "Look, I have stopped eating bananas for three years, and saved up enough money to go to Florida"?

Mr. OTTO: Let us suppose we say this, but there must be some division, surely, in your thinking in connection with these essentials and non-essentials. Certainly, with respect to production goods and machinery that we do not have here—what percentage of our imports are subject to this import-price-push?

Professor NEUFELD: I am being serious when I say that I do not think it makes sense to divide imports in that way. Take the case of machinery. You say we have to import machinery, but presumably if we were to devote enough resources in Canada to the problem we could make the machinery in Canada although at a higher cost. This is what one can say in the case of all our imports. I do not think I would wish to pursue any kind of a policy that controlled imports on the basis of what someone's view is as to what we should have and what we should not have. I think this depends very much on the taste of the individual who does the importing.

Mr. OTTO: We shall have to try to find out how influential on our price structure is this import-price-push.

Professor NEUFELD: I think it is quite significant. I cannot give you figures because no such reliable individual estimates exist, but on the basis of the estimates that have been made, and on the basis of the order of events as I have outlined in this paper with respect to devaluation, wholesale prices, and so on, I think that import prices have a substantial effect on domestic prices. Now, whether it means that for every one per cent that the import prices rise, domestic prices rise by one-half per cent, or a quarter per cent or three-quarter per cent, I do not know.

Mr. OTTO: On the next page you speak about tight money policy and the mobility of capital. In your opinion, just exactly how mobile and how fluid is capital, say, between the United States and Canada?

Professor NEUFELD: It is probably the most mobile and most fluid thing we have got. That is why the rate of return on capital probably is so easily equalized. I think it is exceedingly mobile because we have no exchange controls, and because Canadians know Americans, and Americans know Canadians, and they all know each other's investment opportunities, and because of the relationship between parent and subsidiary companies. For all of these reasons I think that capital is exceedingly mobile across the border.

Mr. OTTO: This is why I question it. In the past number of years, as you know, short-term money in Canada has been drawing anything up to pretty close to eight per cent, whereas short-term funds in the United States have kept pretty well below six per cent. Why is it that over the past five years this has not balanced out? If capital was indeed as fluid as it is presumed to be, why that discrepancy? Take mortgages, for instance. Going back five years previous to this they were still drawing in the United States 4.7 per cent, 4.9 per cent or 5 per cent, and here they were drawing 6.2 per cent and 6.4 per cent.

Professor NEUFELD: Of course, the rate of return as indicated by the rate on mortgages is decided partially by what investors regard as the risk involved. I am not proceeding to give you any facile answer, because you have asked a complex question to which there is no easy answer, but I would say this, that as long as you find that Canadian mortgages yield more or attract more than mortgages in the United States, and you still have a free flow of money between the two countries, then this difference would be explained by such things as the fact that Americans feel they must have a certain reward for the extra risk involved. They are taking an exchange rate risk when they come into Canada, and, perhaps, they inherently regard Canadian investments as being riskier. They perhaps regard a 6 per cent return on a mortgage in the United States as about the same as a 7 per cent return on a mortgage in Canada, because of the exchange rate risk and the risk of doing business here, and so on.

But, on your point of relating short-term interest rates, there have been cases—and I suspect it is the case right now, although I have not looked at it over the last couple of weeks—there are some interest rates in Canada that are lower than short-term interest rates in the United States, so it is not always the case of all rates in Canada being higher than in the United States.

Mr. OTTO: But you will admit that the mobility of capital is subject to some psychological factors on the part of the people who control the capital?

Professor NEUFELD: Oh, yes.

Mr. OTTO: That leads me on to my next question, which is in respect to your page 9, where it is stated:

> There does not at present seem to be any need to press restraint further, but at the same time it would in my view be premature at this stage to assume that an economic downturn is imminent and that monetary and fiscal policy should be made easy.

I agree with what you say, and my question is this. I think you will acknowledge that the psychological factor is one that is either inflation or depression. I think you also acknowledge that one never knows when investors turn panicky nor can you or anyone determine why the stock prices index is still going down or when it will drop or rise. So the question I have is this. Have you given thought or are you aware of any criteria that a government agency might have of evaluating this psychological factor so that they may know when to stop tight money and how quickly the reaction might be. Are there guidelines in this particular field?

Professor NEUFELD: There are no simple guidelines. I think that the most encouraging feature I see, speaking as an outside observer, is that the operations in Canada of the Bank of Canada seem to suggest that they are completely aware of this problem. I can think of two or three cases over the past several years when the capital markets were faced with events that might well have been disastrous. I am thinking in the one case of the Atlantic Acceptance episode and when the Bank of Canada pursued policies that countered this sort of crisis psychology that could have accumulated, and also thinking of the last several months when there seems if anything to have been some easing in the monetary position.

So that all I can say is, there is no simple criterion for judging when this kind of scare, this fear, this crisis atmosphere, is getting out of hand. It seems to me that the Bank of Canada, which is most directly involved here, appears to understand the nature of the problem, and I think would in fact do what has to be done to make sure that it does not become serious in capital markets.

Mr. OTTO: Am I able to take it that you are confident that no one really needs fear an immediate recession as a consequence of this inflation?

Professor NEUFELD: As a consequence of this sort of financial crisis condition you have outlined, excluding any international liquidity problem—I hope we shall not have to discuss that dreadful area—but from the point of view of domestic financial crisis, I am confident that the monetary authorities would not permit it to develop.

Mr. OTTO: Then the farmers in the provinces of Saskatchewan and Alberta, for instance, should be able to get their machinery and equipment they have not been buying.

Professor NEUFELD: They have been buying quite a bit, as a matter of fact.

Mr. OTTO: To pursue this very articulate explanation that you gave in connection with labour and management, I think you said that by a constant sort of chess game with each other, no one suffers except the consumers, and they being consumers also suffer. I think you also suggested that somehow guidelines could be published. Would you say they could be tied to gross national product or to productivity?

Professor NEUFELD: To productivity, yes.

Mr. OTTO: Would you also admit then that if we could somehow solve or introduce a procedure to settle labour disputes without work stoppage this would increase productivity substantially?

Professor NEUFELD: That is a more difficult question, because in a sense you are asking me to form a judgment whether there might not be side effects to a sort of environment in which you no longer permitted strikes. I am not so sure about that.

Mr. OTTO: Let us assume that an avenue was found whereby labour disputes can be negotiated without stoppage of work. You must acknowledge it would increase productivity.

Professor NEUFELD: I think it is certainly quite acceptable to say that the more hours per year worked the higher output there will be.

Mr. OTTO: And therefore if any method is found, it would have to be a way to increase productivity resulting from negotiation between labour and industry without stoppage of work?

Professor NEUFELD: That is one way, yes. If you could reduce work stoppages, that would increase total output and would be of help to everybody.

Mr. OTTO: Or efficiency of production.

Professor NEUFELD: Yes, in the sense that you would utilize your capital more fully over the year, more continuously over the year, and in that sense increase efficiency.

Mr. OTTO: I believe you have put your finger right on the very problem, that by labour using its strike methods, industry using its inventories and tactics to counter this—and I believe you also said that experience has shown the distribution between the two have not changed, and in your opinion will not change, and therefore we must look for some other avenue in which the returns may be increased to both of them?

Professor NEUFELD: Yes.

Mr. OTTO: Now, just in your opinion, and you also made comments about this, how serious is this present inflationary cycle?

Professor NEUFELD: I am worried about the fact that Canadian prices and costs have been rising faster than U.S. prices. The reason I am not panicky is that because for the past seven or eight months at least prices seem not to have been rising faster in Canada than in the United States, but am still worried, because I cannot see how in the light of recent wage settlements there will not be a further deterioration in the ratio of Canadian unit labour costs and U.S. unit labour costs; but this is in the realm not of statistics available, but in the realm of forecasting.

Mr. OTTO: When you say you are worried, what are you worried about, unemployment? You say you are not worried about recession?

Professor NEUFELD: No, I did not quite say that. What I am worried about is the fact of undesirable consequences in Canada of prices inflating at a faster rate than in the U.S., continuously over a period of time. I am worried about the fact that this would eventually lead to an exchange crisis and eventually to further devaluation of the Canadian dollar.

Mr. OTTO: Thank you.

Co-Chairman Senator CROLL: Mr. Saltsman?

Mr. SALTSMAN: Professor Neufeld, perhaps I might begin by saying how pleased I am to see you before the committee, and whether I agree with all your statements or not, how pleased I am at the hard answers you are giving to the questions that are arising here. I think there is a real need for this kind of an examination and I think the committee is going to benefit enormously from the information that you are giving us.

I would like to start off by asking you the same kind of question I asked Mr. Bryce yesterday, and it arises from some of the things you have already said. I refer to page 8, which says:

> Whatever effect recent wage increases will have on this trend cannot yet be seen in the figures.

Now, the question generally is, what do you see for the economy over the next five years, although certain things are not showing up in the figures as yet? Do you anticipate, for instance, higher prices if we continue the way we are continuing with the set of policies we now have? Do you see full employ-

ment—the same heavy demand on the economy as has been experienced in the last number of years? Just generally, just what do you see for the economy over the next five years?

Professor NEUFELD: I think that if we can assume that we are going to manage our affairs reasonably well, that the next five years will be five years of very substantial growth in real terms, probably a growth of 5 per cent per annum. I think that this provides conditions for very satisfactory employment conditions.

I am not at all confident, as of now, that we will be able to achieve this growth without a fair amount of inflation, because I am not at all confident that we yet have techniques designed to deal with cost-push inflationary forces. I am heartened by the fact that we seem to have greatly improved our ability to deal with demand-inflation forces.

The policy of the Bank of Canada over the last five years, in my view, has an excellent record. Fiscal policy has revealed, for the first time perhaps, a degree of imagination, in the budget, that had been absent for so many years.

Because of these factors, I am hopeful that we will be able to contain demand-inflation, but at present we cannot feel at all certain that we are going to contain cost-push inflation; and if I were forced to make a forecast I would say that the next five years are going to be five years of rising prices.

Mr. SALTSMAN: From what you say, and I think this is somewhat in line with what was said yesterday by Mr. Bryce, it would appear that our economy is arriving at a different stage of maturity.

For instance, the cycles that have been traditional in our economy, the business upswings and the violent down-turns, seem to be drawing to an end, through the use of Government policies of pump priming. We seem to have some answers—transfer payments and things like that—for providing full employment, providing demand in the economy.

With the United States engaged in its war in Viet Nam and with every indication that it may, even after a settlement in Viet Nam, be continuing to pursue foreign policies which would mean a great demand on its production in the United States—and, as you have indicated, our own economy is quite closely related to that of theirs—I feel very much the same way, that we are probably in for a sort of permanent full employment of all our resources.

The question I am then asking is, can we handle this kind of situation? I think I referred to it as a situation which is analogous to a war, a sort of permanent war situation economy. Can we handle this with traditional fiscal and monetary policies?

You have given some indication of a departure from those traditional policies. You have talked about wage and price guidelines which are not generally considered or have not generally been considered in the past in our economy.

I would like you to go a little further than this. Are you suggesting that the traditional tools at our disposal for managing monetary policy, for adjustments through fiscal policy, will not be sufficient to contain the kind of forces that are afoot in our economy now?

Professor NEUFELD: I think the point is that they have not been sufficient in the past. There are two reasons why they were not sufficient. First of all, they were not always used correctly. Secondly, they are directed essentially towards controlling excess spending or deficient spending.

As I mentioned before, it is not that those techniques are becoming less important: those techniques will be needed in the future to deal with the same things that they have done in the past and to do it better, and I think they will in fact be able to do this.

The point is, we want to improve our record of the past. The way to improve our record of the past is to introduce techniques that will do in the future those things that these other techniques never could do in the past and cannot do in the future. So it is not that the traditional techniques are no longer necessary. It is vitally important that they be used correctly in the future. But what we want to do is improve our total price and growth and employment records of the past, by introducing additional techniques that will solve the problem that the others cannot solve.

Mr. SALTSMAN: I would like to take this wage-price guideline a little further. When you talk about a wage-price guideline, the price will protect the general public against any tendency for specific industries to impose their costs, justified or otherwise, upon the general public. This would have the tendency to insulate the public. The wage, I presume, is to give industry some measure of control over one of the factors of production.

What I am curious about is why you have not included factors like interest—which in some industries—especially capital intensive industries—are probably a more significant factor of production than wages. In some industries, labour-intensive factors are of importance but in other industries they are not. We have a few of those in Canada. For instance, the oil industries, and other industries which have automated very heavily and where their chief cost of production lies in the price of capital equipment. I would think that the level of interest rates in the country affecting the cost of capital generally—bonds, stocks and so on—would have a very significant effect.

First of all, why have you not included some measure of interest control? I would like to take this a little further and give you the whole question. Why have you not included some measure of profit control?

You are asking the working men to give way to moral suasion, to act in the national interest, to be concerned about the consumer. This is one of the factors that comes into price. Profit policy also enters into it. Why have you excluded those two elements from your guidelines?

Professor NEUFELD: To speak to the last part of the question first, I have dealt with profits. The very fact that the approach involves prices, means that it directly involves profits. I have used the phrase profit-push inflation. It means that appropriate price policies will ensure that industries where there is not too much competition will not be able to have excess profits, because they will not be able to control prices the way they might have done in the past. I in fact specifically have included profits.

Now, why no control of the interest rates, you say. Interest is one cost of production. I see no point in controlling those kinds of costs, where the cost is set by markets that function well.

The reason why we talk about doing something that will influence profits through prices, and that will do something that will influence wages, is because we have lost confidence that the market is going to establish the right prices in these areas. There are rigidities that prevent adjustments from taking place that should take place.

The point is that in the case of interest rates I do not think this is so.

The capital market in this area is one of the best functioning markets that we have got. No one likes high costs of money—except the savers who have seen in recent years that even with high cost of money they are losing value on their savings. No one likes the high cost of money, at least not the people who borrow.

In my view, the cost of money is usually an accurate and honest reflection of the demand for money. I see no reason for introducing any measure of control that is going to obscure the picture. This is why I think there is no need at all for controlling interest rates in general. This remark is taking us off the

point, and I do not want to do so. However, this is not to say that there may not be pockets in the capital market, such as consumer credit and so on, where the market does not function well and where something should be done.

However, as a general proposition, the capital market works exceedingly well and the interest cost that you see is an accurate reflection of the relative demand for funds.

Mr. SALTSMAN: I would like to pursue this subject a little further because I think it is quite important.

Would you not say the same thing about labour, that the cost of labour today is an accurate reflection of market demand? The market in effect says that, if you can squeeze harder, you will get more, and, if you are more powerful, you will get what you want, or, if there is a shortage, prices will go up.

We could say the same thing about labour as about interest. I am suggesting that there is really not this kind of flexible degree and wise allocation in the market interest rates.

What we have today, really, is an extreme shortage, or apparently, a really extreme shortage of capital. There is really no bidding. Capital can practically get what it demands. It is in that sort of position in the market.

Competition is not really to lend money to people, but to up the rates on those holding money.

I would suggest this is an imperfect market, and just as we may be in an imperfect market for some labour in Canada, we have a similar situation with interest rates. The market is not functioning normally.

Now I will leave that point, and go on.

Professor NEUFELD: Was that a question?

Mr. SALTSMAN: Well, it is in the form of a statement that is intended to provoke you to an answer.

Co-Chairman Senator CROLL: I was going to suggest, Mr. Saltsman, that the statements are being made from here. That was the original intention.

Mr. SALTSMAN: Well, I have raised my voice on the matter.

Professor NEUFELD: I would like to record that I just disagree with you.

Mr. SALTSMAN: Yes. I would like to hear your reason for disagreeing.

Co-Chairman Senator CROLL: Just one minute, Mr. Saltsman. Just wait a minute, please. Professor Neufeld says that he disagrees with you, and he is going to give you reasons. We are all listening, Professor Neufeld. Go ahead.

Professor NEUFELD: First of all, in the case of your comments relating to the labour market, that it works reasonably well and that wage prices are an accurate reflection of the market, I think that we have to admit that important wage settlements are arrived at through a very peculiar process: the battle between the very powerful management group and the very powerful union group.

Competitive markets are not conceived as being structured in this way, where no individual in the market can decisively influence the market price, so that I do think, just as there are industries where there is not sufficient competition for us to believe that the prices they established would be the ones that would be established by a competitive market, so the wage settlements arrived at by the large and powerful unions might well be wage settlements that, too, would not have been arrived at had there been free competition in the labour market.

In the case of interest rates, I repeat what I said before. In my view, from observing for some time now the functioning of the capital market, I think this is probably the most efficient market of any kind that the nation has, where changing demand and supply forces accurately are reflected in the cost of

money. The only exception I would make to that is that there are times when a certain psychosis develop and people get very frightened because of international developments and so on, and because of some concern over the financial stability of financial institutions and so on, when for short periods of time you might have really drastic interest rates such as in 1959, for example.

However, excluding that, my view is that almost all the time interest rates indeed are a correct reflection of the cost of money, because they have been arrived at in a market that is remarkably competitive.

Mr. SALTSMAN: This is the point I was trying to make, that the market is not competitive in the traditional sense. When we talk about competition, we usually talk about competition for the consumers custom. I see an analogy between what is going on in labour, perhaps in certain instances where they have sufficient power to make certain demands, and what is happening with those who hold money and who have sufficient power to make certain demands. I am thinking of some of the larger industries in Canada who have large sums of money that they put out for short term and who go round from one source to another and say, "how much more will you give me than the other fellow?"

Now, is this really intrinsically different from what labour is doing? After all, labour in Canada is still subject to market conditions. We do not see labour in Canada excessively higher than or, even in most cases, closely related to that of the United States. On the other hand, we see interest quite a bit higher than that of the United States. I find that the holders of money are really acting in a way that they have the market to themselves. They can almost bid it up as they please today.

Senator THORVALDSON: Nonsense.

Mr. SALTSMAN: This seems to be what is happening. I would like to ask you if you see interest rates coming down substantially.

Professor NEUFELD: I do not think so. I do not think interest rates will come down.

Another point I always fail to understand is why there is such concern for the position of the borrower and so little concern for the position of the saver.

You think interest rates are high today. But, if you compute what they really mean to a person who has an income tax rate of 25 per cent and who has to adjust to the fact that both interest income and capital value have been depreciating because of the rising cost of living rates, which have gone up 3 per cent per annum, what has he left? Very little. So, in real terms, interest rates are exceedingly low in Canada. They are not high.

Mr. SALTSMAN: Interest rates over the last three years, especially on mortgage money, seem to have increased, I would say, roughly at least 30 per cent. Would you agree with that? I am talking about traditional mortgages, where they have gone from $6\frac{1}{4}$ to 8 per cent now.

Professor NEUFELD: No, I would not accept that.

Co-Chairman Senator CROLL: I would not agree with that either. It is not so.

Mr. SALTSMAN: In the last three years?

Co-Chairman Senator CROLL: No.

Mr. SALTSMAN: What have they gone to, then? What have they increased to, in your opinion?

Professor NEUFELD: I do not have the statistics in front of me, but I think it would be quite easy to get a definite answer.

Mr. SALTSMAN: Perhaps we could come back to that this afternoon.

Co-Chairman Senator CROLL: We were hoping to finish this morning.

Mr. SALTSMAN: I do not know, but I think Professor Neufeld has raised some most interesting points.

Co-Chairman Senator CROLL: Then ask him the questions, Mr. Saltsman. We are hoping to continue on. There are four or five others, and we could finish this morning.

Senator THORVALDSON: Mr. Chairman, if I may say so, there are a lot of speeches being made here, not in the form of questions at all. I do not think I came here to spend my time listening to speeches. I came here to listen to witnesses. There are comments one would like to make in regard to questions, but we have heard a tremendous amount of statements, completely and wholly inaccurate, from a person who is not a witness. Maybe I am doing the same thing now.

Co-Chairman Senator CROLL: You are used to a different sort of Chamber, where they ask questions.

Well, Mr. Saltsman, at the moment I am going to give you a little opportunity to do some more thinking.

Mr. SALTSMAN: Mr. Chairman—

Co-Chairman Senator CROLL: Hold it just for a moment, Mr. Saltsman. My Co-Chairman, Mr. Basford, is next, and then Mr. Carter and then Mr. Olson.

At the moment we will take a 15 minute recess for the benefit of us older people.

—Upon resuming:

Co-Chairman Senator CROLL: I understand we are to have questions from my Co-Chairman, Mr. Basford, from Senator Carter, Mr. Bell (Saint John-Albert), Mr. Olson and Mr. Cameron. Mr. Saltsman has had good innings and I think he is going to let it go round for a while.

Mr. SALTSMAN: If I might ask just three questions now then I shall be finished. These, I promise you, will be questions and not speeches. The three questions I would like to direct to the witness through you, Mr. Chairman, are as follows: First, on the question of price and wage guidelines, and no guidelines on profits, what is the situation in an automated industry where productivity is increasing at a great rate? What would you suggest in a case of that type? Do you not get some kind of disturbance in allocation? Secondly—

Co-Chairman Senator CROLL: Are you not going to give him time to answer your question?

Mr. SALTSMAN: I will ask all the questions now and then I will shut up. My second question is this: Since we have started on the guideline road with steel, should this guideline be applied to the automobile industry as well to hold the prices under present circumstances? Thirdly, supposing guidelines do not work and moral suasion is not as powerful as we think it is, what then?

Professor NEUFELD: You ask first what would happen in the case of an industry where there was a substantial increase in productivity so that substantial profits were being made not because of price increases but because of high productivity increases. My answer would be that in such an industry there should be a decline in price. I might complete your question by asking another. What would happen in an industry where you had relatively low productivity? Such an industry would have to pay competitive wages and would see a squeeze of profits that way. I would say in an industry of relatively low productivity there would have to be an increase in price over a period of time. So what I would envisage is a decline in prices in industries of high productivity and an increase in prices in industries of low productivity with no change on balance.

Your second question was, should guidelines be applied to automobile prices. I think it is to be remembered that automobile prices are quite different

from most of the others because they are related to the automotive trade agreement, and I think therefore the direction of automobile prices must be within the context of the objectives seen to be desirable when applying that agreement. My own feeling is that unless there is a narrowing—and I won't commit myself to timing—but unless there is a narrowing of the price between Canadian and United States automobiles, and assuming we keep the general price level in order, the agreement would be seen to have failed.

Your third question was, supposing moral suasion does not work: In this regard I would revert to the point I made before that I think this is a good point to start where I have suggested we start. I don't know whether it would work or not. I think if it were found not to work, if moral suasion and the influence of public opinion, and the influence of people recognized as experts in the field—if they fail to achieve results, then one would have to try to experiment with the next stage in this process. What form that would take, I don't know. Speaking off the top of my head, I think something in the nature of a wages and prices review board would be the next step.

Mr. CAMERON: Do you envisage a price review board with power to enforce decisions?

Professor NEUFELD: I cannot envisage that, no.

Co-Chairman Mr. BASFORD: You have advocated a price-wage guideline policy. How do you think the machinery for this is established?

Professor NEUFELD: I think the most important aspect of the machinery should be that the institution responsible for setting guidelines should be clearly seen to be an institution of independent experts. I think it would be unfortunate if the impression was created that these guidelines were those of one or other of the important political parties. Therefore it might well be that the guidelines could be established by an institution such as the Economic Council of Canada, but I am not wedded to any particular type of institution or approach. The important thing is that whatever the institution said, should be respected by the general public as an honest objective appraisal of the problem.

Co-Chairman Mr. BASFORD: Do you think the Economic Council is presently equipped to establish that?

Professor NEUFELD: Equipped in the sense of personnel or institutional arrangements?

Co-Chairman Mr. BASFORD: Institutional arrangements.

Professor NEUFELD: I think possibly it is.

Co-Chairman Senator CROLL: What do you mean by institutional arrangements?

Professor NEUFELD: I mean an institution that has the kind of association with government that the Economic Council has. I think the impression has been created that the Economic Council is a fairly independent group and what it says it does believe. I think that the most important prerequisite, if I am correct in this, is that this situation should exist for it to assume those functions.

Co-Chairman Mr. BASFORD: I gather from your remarks that you would prefer this type of institutional arrangement to one where the guidelines were promulgated by the Department of Finance.

Professor NEUFELD: Yes, if only because it would be easier to convince people that the guidelines were the result only of the analyses of independent people who are recognized as being experts in the field. Now if it were found that the same thing could be achieved by a section in the Department of Finance, I would see no objection to it coming from such a section.

Co-Chairman Mr. BASFORD: Presumably, if the Economic Council was given this function it would have to hire more staff. I am going on that assumption.

Do we have the personnel in Canada and the information in Canada presently for the establishment of such guidelines?

Professor NEUFELD: In the last several years there has been a very substantial improvement in our knowledge of productivity. Until the last several years that information was not available, but the Dominion Bureau of Statistics has forged ahead in this field and the information is improving year by year, so I think we are getting to a point now where we have got the information, and I certainly think we have in Canada the expertise to use the information. So I see at this stage no obstacle of that sort to prevent us from moving forward.

Co-Chairman Mr. BASFORD: The reporting facilities of the Dominion Bureau of Statistics are now sufficient, they are giving us enough information, are they?

Professor NEUFELD: The information they have created in the last several years is so much better in this area than the information we had before that we are certainly getting to the position where the information is sufficient. My opinion would be it is sufficient to start now. When one remembers that these things do not happen too quickly, and that in the meantime the information will keep on improving, looked at in this way the problem of information should not impede progress on these points.

Co-Chairman Mr. BASFORD: You came out earlier in your evidence, in answer to some questions by, I think, Mr. Cameron, clearly opposed to price controls with the emphatic answer, "No." I think it would be useful to have on record your reasons for the "No."

Professor NEUFELD: I think price controls usually have two major effects. The first is that they do not get rid of inflation; they merely hide it for a period; the inflation is still there. The way it is hidden is through the substitution of rationing procedures, price rationing procedures. Rationing there still is. It is done through other ways rather than price, so it does not get rid of the problem of inflation, but merely obscures it.

The second thing I think may be said against price controls is that it distorts the relative price structure. Quite apart from increasing prices it destroys the relative price structure. There are, in fact, quite substantial changes in relative prices, because the demand for some things falls off and the demand for other things increases. By permitting such relative price changes you encourage the production of things that are wanted and discourage the production of things that are not wanted.

It is interesting that in highly centrally controlled economies the direction is in favour of using prices more and not less, because of its allocating function. Price control would destroy that allocating function—at least, would severely limit its effectiveness. Therefore, I do not think it is desirable on these grounds.

Thirdly, I would say that as long as we essentially decide we are going to have an economy that is price oriented, in which the allocation of capital and the organization of a good part of the activity and the pricing of things that people buy is essentially based on a price-oriented approach, as long as we accept this, then I think a system of price controls would be an anachronism because it would, in fact, tend to destroy the general market-oriented economy we say we want to have.

So, I think there are three points: it does not prevent the problem of general inflation; it prevents the system from allocating goods; and, thirdly, it would, I think, tend to destroy the essentially market-oriented economy that seems at this stage of our history still to be the most acceptable type of economy.

Senator THORVALDSON: Mr. Chairman, on this point may I ask just one question?

Table I is a very useful table indicating the percentage changes in many countries. I think it is of 20 to 30 countries. Would Dr. Neufeld like to indicate in all these countries whose inflation problem seems to have been much greater than Canada's, if any or many of them effectively applied the so-called "remedy" of price controls?

Professor NEUFELD: Well, there have been bits and pieces of price control in a number of countries. My opinion is not authoritative in this area. I cannot, however, think of any economy in this list that has a complete system of price controls. There are a number of prices in a number of these countries that are controlled, but I cannot think of any country that has complete price control of the kind, say, we had during the Second World War.

Co-Chairman Mr. BASFORD: In the Minister's statement made in the house in September, which I do not have in front of me, I am sorry, he discussed the possibility of guidelines, but raised the problem there was no consensus as to the causes of inflation, and that without some form of consensus guidelines would not be effective. I would appreciate your comment on that thought.

Professor NEUFELD: I would have to disagree with that view. Let me say, first of all, that because of the role of the Government, both in the wage settlements and in the steel price case, implicit guidelines seem to be in the mind of Government. So I think that in a sense the Government itself has admitted that some sort of guidelines somewhere seem to exist, and that they have attempted to enforce them.

As to whether you must have a consensus to act in this area, I do not think so. My own feeling is that because of the very complex nature of the wage-profits-price-costs relationship you will not get a definitive answer that will enable you to proceed with 100 per cent assurance that you are doing the right thing. But I think there is sufficient evidence, evidence accumulated over the years, to say that it is a fairly good possibility that the problems associated with the phrase "cost-push inflation" do exist, and are important, and do not lend themselves to control through traditional control techniques.

So I would say: No, we must not wait until all the economists say, "Yes, it is a problem. You should do something about it." I do not think you would ever act if you waited until they all said that, because I do not think they will all say that.

It is my opinion that the time has come when the presumption is strong enough that there is a problem here, that we should start doing something about it, and then in two years' time sit back and see if it is working or not.

Co-Chairman Mr. BASFORD: You have spoken about the import price-push or the effect of rising import prices. Nowhere in your paper is there any mention of tariffs. I am wondering whether the application or non-application of tariff policy would be useful in this regard.

Professor NEUFELD: Coming from the west I warn you straight away I am against tariffs.

Co-Chairman Senator CROLL: Why do you think the question was asked?

Professor NEUFELD: I am trying to think of how tariffs might be used in this particular instance. Starting with the presumption, first of all, that for the most part I do not think tariffs are very useful—

Co-Chairman Mr. BASFORD: Coming from where I do, I was hoping you would say we should do away with them!

Professor NEUFELD: Let me say that in spirit I would say, "Yes," but I would want to elaborate, but I will not do that at this committee meeting. However, I think it might be possible, if you were faced with a problem of excessive price increases in certain industries, to take a good close look at the tariffs in those industries, and if the price increases were too large, to bring the

tariffs down. I can see that as a possible technique in countering that particular problem, but I do not think this is a very complete answer to your question, and I am sorry.

Senator CARTER: I have several different lines of argument I should like to explore, but I should like to follow on with this business of guidelines for just one question. Dr. Neufeld, you will recall that several years ago the late President Kennedy set some guidelines for the steel industry, and eventually persuaded the steel companies not to put into effect the increases in price they contemplated. I think his effort was applauded over the United States and Canada, certainly, and perhaps all over the world. Some time around the end of August I was in the United States and I read an article by an economist about this. This article stated that although President Kennedy succeeded in preventing a price increase in respect of steel, that fact did not have very much effect on the economy of the United States because the big customers of the steel companies, such as the automobile manufacturers, had already announced their increased prices and they were not restrained. It was said that the result of the President's effort was mainly an increase in the profits of the automobile manufacturers at the expense of the steel companies. Would you agree with that assessment?

Professor NEUFELD: I would not agree with it because I do not think we have information at this point yet to come to such a definitive conclusion. One recalls the fact that the United States has had a slower rate of inflation than any other country in the Western world. One can start with that very simple fact. It may not mean too much, but it is there. The United States has had a rate of inflation lower than that of Canada, and Canada has not had a system of guidelines. Again, one should not assume cause and effect without looking at it closely, but it is the fact that this was the case.

Then, one can ask: "Well, were the guidelines the important difference in this?" I think that before we can say: "Yes, they were", we are going to have to have about three or four years of statistics in order to be able to look back and do a proper analysis in order to decide whether the guidelines made the difference or whether other things made the difference.

The first tentative appraisal of this I saw last spring, I think—that is, the first tentative serious appraisal of the question of whether or not the guidelines made the difference—and the tentative conclusion was that that sort of guidelines-incomes policy probably did make a difference. We are in the realm here, as I mentioned before, of a quite new area where results cannot yet clearly be seen. So, I do not think it is possible to argue strongly on either side of the case. Personally, I am impressed with the fact that the United States' price experience, in spite of Vietnam and so on, has been better than ours.

Senator CARTER: If we were to follow the policy of guidelines, as this morning's discussion has indicated might be essential, and which I think you yourself support, you would agree that any restraint on a basic commodity would have to be followed by similar restraints in order to prevent price increases imposed by the consumers of that basic commodity, would you not?

Professor NEUFELD: I think that the impact of the consumer has got to come through the usual techniques—the ones of controlling total spending by using your taxing policies, by using your interest rates and monetary policies. I think that the consumer spending side of the problem will have to be tackled in that way.

Senator CARTER: We have known from our experience in Canada and the United States, and in other countries, that prosperity, full employment and inflation seem to go hand in hand. To me, as an ordinary human being, it seems incredible that in an age when we can explore outer space and put satellites in orbit we have not been able to do anything about solving this problem. Would

you say that this indicates there is some basic flaw somewhere in our monetary system?

Professor NEUFELD: I think that the presumption must be that there has been some basic flaw in the whole spectrum of our control techniques. What we are really trying to do is something very unusual, if you look at it with the perspective of history. We are trying to achieve high, full employment; we are trying to achieve increases in the standard of living; and, we are trying to achieve all this without inflation. Well, it is really only since the thirties, or since the Second World War, that we have really seriously tried to do this. So far we have not done it very well, and this implies that our techniques for trying to achieve these objectives are not as good as they should be. My view is that we should just keep on trying to improve them.

As I have explained, as I see it, the possibility might exist that we will make a better job of it if we use something of the guidelines approach in addition to the other things we have used up to 1965, than if we simply go along and hope for the best. So, I think it is to be remembered that we are trying to achieve economic objectives that probably we never have achieved before. Therefore, we may have to devise techniques that we have never had in order to achieve them.

Senator CARTER: But these techniques and traditional policies—both fiscal and monetary policies—that we have followed since the last war, and perhaps before that, were based on certain concepts. They have all been carried out within the framework of certain monetary concepts. I have been wondering whether you might inform the committee as to whether there might be basic flaws in these concepts themselves that confine the framework within which we have been operating. In particular, I have been thinking about money itself, and the use of money as a medium of exchange and, at the same time, treating it as a commodity. Could that possibly be one of the difficulties?

Professor NEUFELD: I do not think so. I think that the role of money in influencing prices, and the use of the control of money in trying to control prices, are things that are as important now as they ever were. I think unless we properly control our supply of money we would see the same old problem of cost and price increases in the future, so I do not think there has been a basic flaw there.

It has always been the case that one has to have a sensible control over money in the long term to keep prices under control. I do not think that that has changed, nor do I think there is a basic flaw there, but I think that what has changed is the desirability of achieving certain economic objectives. We want all the good things of life, and we want them without inflation. We have found that if we operate the economy at a high level of economic activity it might be that there are some price increases that arise not because we have too much money in the economy but because we have these very strong bargaining groups, on both the management side and the labour side, that set prices and wages that are not consistent with continuing high employment and continuing price stability. I say it is not that we have seen any basic flaw develop in the system; it is just that we are trying to do things that we have never tried to do before. The thing has always existed. What we are trying to do is control inflation which seems to be caused by things other than money, or too much spending.

Senator CARTER: Well, has any new thinking been done along these lines, such as exploring these concepts in the line of trying to develop new concepts? It seems to me that our monetary system is now in the horse and buggy stage when compared to our developments in science and other fields.

Professor NEUFELD: No, I do not think so. I think there have been tremendous developments on the monetary side, particularly in the use and

control of money in trying to achieve high employment, in trying to achieve price stability, and in trying to achieve increases in the standard of living.

I think a lot of things have happened that have been very useful in this area. I do not think the money system is in the horse and buggy stage, I think it is in the jet age, but it is not enough, we have to do other things, too.

Senator CARTER: In your brief at page 9 you refer to the devaluation of the Canadian dollar and its possible effects on price increases. I may have misinterpreted what you said, and I would like you to correct me if I did, but I got the impression from your brief and from your remarks that the devaluation of the dollar in the light of history, looking back on it, was entirely a good thing, and I gathered from your brief that you would not agree with letting the dollar find its own level on the monetary market at a floating rate. Am I interpreting your brief correctly?

Professor NEUFELD: I did not specifically raise the question of the desirability or undesirability of a floating rate. I am quite happy to state my view. I said that if a country tries to protect itself against the impact of foreign price increases, eventually you will have to have changes in your exchange rate. Whether you would do this by permitting the rate to float or by changing it regularly from one peg to another peg, is of course an important question in that case. But I gather that you want me to answer the question whether or not I would favour a floating exchange rate, or am I misinterpreting you?

Senator CARTER: I just want a clarification, because I was not sure from your brief exactly what you meant in regard to devaluation. To go back in history at that time, I do not think Canada had any choice, with the conditions that were more or less imposed on it at that time, and that this was the price of getting the support from the International Monetary Fund and federal reserve funds to shore it up. So I do not think we had much choice but to devaluate the dollar. But in trying to assess what you have stated in your brief and what you said this morning, I am not quite clear whether you think Canada should have devaluated the dollar at that time or should now revert to a floating rate.

Professor NEUFELD: I think that at the time we should have had a devaluated dollar but should have achieved it through pursuing a monetary policy that would have brought it about. Unfortunately the monetary policy we pursued at the time did not achieve that objective. In my personal opinion, it was inappropriate to the economic situation at that time. When the devaluation was achieved initially, I think it was done through important public speeches about the desirability of the Canadian dollar being lower than it was, by fairly prominent cabinet ministers. Eventually there was the devaluation. The question, however, was not so much one of devaluation, but whether the rate should be fixed or not, so we fixed the dollar. Those are two issues, it seems to me. So that when you ask me should we have had devalued the dollar, I think in view of the economic conditions at that time—high unemployment—that a devalued dollar was quite appropriate.

Now, the question of whether we should have fixed it at that time or whether we should have permitted it to float. The point I made in the paper is this, that if it is true that we have permitted our unit costs in Canada to rise more than the United States—and I would hope that the Economic Council would provide you with more authoritative information than I can—then we have eroded the advantages we have gained from devaluing the dollar, in the first place, and if we had had a choice, in my view, if we had decided we were going to erode the dollar in this way it would have been better to permit the dollar to float back up, rather than in effect re-valuing it and getting prices out of line with U.S. prices.

As to the floating exchange rate, I still believe, particularly if it can be done in the context of more flexible international exchange rates, that Canada

would be better off by having a floating or semi-floating system of exchange rate than a fixed exchange rate. If it is true that our unit costs have got out of line with U.S. unit costs, in effect it means that the 92½ cent dollar we set then is not the rate of exchange we have today in real terms. So that we have in fact changed the exchange rate. If we are going to change it, perhaps it would be better to let it float rather than let costs get out of line with those of the United States.

Co-Chairman Senator CROLL: Mr. Bell and Mr. Olson are next.

Mr. OTTO: Mr. Chairman, may I ask a short question?

Co-Chairman Senator CROLL: Just a short one.

Mr. OTTO: Senator Carter asked if we have any flaws in our free enterprise system. Would you not say that taking away labour from the law of supply and demand is a very serious flaw in our whole system?

Professor NEUFELD: That is a very pertinent question, and of course when one talks about these things one has to begin by a definition of what one means by "flaws". I think that you could well argue, as you have suggested, that the very fact that market forces do not seem to establish correct prices in all industries, because there is inadequate competition, and do not seem always to establish correct wages because the market does not work too well in those areas, could be defined as a flaw in the free competitive system, and I think there is not an economist on earth who would argue that we have a perfect competitive system. In fact, I think it could be argued the other way, that there always have been many areas in the economy where the free market system does not work particularly well.

Co-Chairman Senator CROLL: Mr. Bell?

Senator THORVALDSON: Mr. Chairman, I would like to ask a question about the question Senator Carter asked. Professor Neufeld, what will be the effect on Canada and our trading relations and monetary relations with the United States if we continue to widen the inflationary gap between Canada and the United States.

Professor NEUFELD: Well, the end result would be, if continued long enough, a further devaluation of the dollar.

Senator THORVALDSON: To follow that up, would you deem that to be detrimental to our economy?

Professor NEUFELD: I have seen the question argued in an academic sense on both sides. My own feeling is that it is not appropriate for a nation of this kind to pursue a policy of continuing devaluation of its currency.

Co-Chairman Senator CROLL: Mr. Bell?

Mr. BELL (*Saint John-Albert*): Mr. Chairman, most of my questions have been answered, and I would like to compliment Professor Neufeld on his answers; they were much to my personal satisfaction, and were less socialistic than I thought his background would have indicated, coming from Saskatchewan's School of Economics. I also noted that there was some general agreement between Professor Neufeld today and Mr. Bryce, the Deputy Minister, yesterday, in at least two fields. First of all, there was some agreement, I think, that interest rates no longer have the same control over our problem today, and I think you both expressed the same general views about our gross national product developing in the future. However, I want to follow the one point which Mr. Basford touched on with respect to D.B.S. Are you fully satisfied that D.B.S. are providing the true figures that we need to follow through the techniques you suggested? Should more be done here?

Professor NEUFELD: I think that more should be done here. I think one must be completely fair to the D.B.S. They have plans, if I read their outlines

and projects correctly, to do the things in fact that I think should be done. There are major projects under way in this area of measuring productivity, industrial reclassifications and so on.

The first stage—I am not so sure if it is the first stage, but one stage of it has recently appeared through re-estimation of the industrial production index. This is a step forward and the D.B.S. has outlined further improvements that it is undertaking—so that the information, as presently available, is not sufficient. It seems that the D.B.S. is forging ahead. I am not sure, I could not say whether in fact they have now the resources to do this as quickly as it should be done.

Mr. BELL (*Saint John-Albert*): Would you favour a more simple method of reporting from D.B.S. to the bodies of consumers, about foods for example?

Professor NEUFELD: I would favour it very strongly, not only about foods but in the general area of what is happening in prices. I think there should be a great improvement in the information that the consumer has, to help him determine what his views should be and what is happening on prices.

Now that I am on the Economic Policy Committee of the Consumers' Association of Canada, I think that I am speaking for the group when I say that the consumers should be better informed.

Mr. BELL (*Saint-John Albert*): I was going to ask this question before you gave me that information. What do you think? Would you care to express yourself on these consumers' boycotts, these voluntary boycotts, of which there has been some talk in Ottawa and elsewhere?

Professor NEUFELD: I think they are futile. I cannot see how they serve any purpose.

Mr. BELL (*Saint John-Albert*): Would you object to them from a free enterprise nature or is it just in their ultimate effect?

Professor NEUFELD: It is just that they cannot possibly produce any significant effect, with the possible exception that you might say that they will have the effect of encouraging more public discussion of the issue.

Mr. BELL (*Saint John-Albert*): In other words, if some publicity were given to the fact that meat prices were outrageously high, and everybody switched over to fish, this would help British Columbia and Newfoundland, and then the prices of fish would go up correspondingly?

Professor NEUFELD: Perhaps not correspondingly, but this kind of action might reveal—I am not saying that it would, but it might—that there were really good reasons why the price of meat is high. Also, it would perhaps make it clear to people that it is a very, very good idea to eat more fish and less meat.

Co-Chairman Senator CROLL: You have scored, Mr. Bell.

Mr. BELL (*Saint John-Albert*): In other words, to try to sum up, you do not feel that these voluntary boycotts have any effect, but you do favour strongly greater publication and knowledge for the consumer on all these prices?

Professor NEUFELD: I do indeed.

Mr. BELL (*Saint John-Albert*): I want to mention another subject. I touched on it yesterday, but it is not contained in the brief. Mention has been made of poverty in the Maritimes. I want to get your view on what could be done in so far as having a national policy to assist a region where the difficulty becomes even greater when restrictions are placed on the flow of money, when there is a tight money policy and so on. You know the story: it affect the extremities more where money is just beginning to flow.

Do you have any ideas of what could be done? I am not asking for a full story of differing interest rates, but is there some idea you might have that we could explore. It is tied in with this very definitely, it is a result of inflation, whether we like it or not.

Professor NEUFELD: This is a huge area, this question of regional development and what impedes it and what encourages it. All I would say is that I think it is quite inappropriate to use interest rates and credit policy to encourage regional development. I think it is better to assume general levels of the cost of money, to accept them, and to divorce regional development from changes in credit conditions. In other words, regional development policy should be unrelated to the question of general credit restraint. This is not to say that we should not have more regional development. I cannot see that the use of interest rates and general monetary policy for regional development is either desirable or practicable.

Mr. BELL (*Saint John-Albert*): That is where this witness pretty well agrees with Mr. Bryce. Thank you.

Mr. OLSON: Many of the questions I wished to put have been discussed in the examination by other members of the committee. However, there are three questions I would like to discuss briefly with you.

First, let me ask you about the statement you made in paragraph 8 of your Summary and Conclusions, where you say that the excess spending forces appear at present to be fairly well under control. In the expanded explanation, you said that the inflationary pressure during the last six or eight months—I think you said—has pretty well levelled off or diminished. Yet, when we look at the consumer price indexes that were provided to us yesterday by the Deputy Minister of Finance, we find that the increase in food advanced 7.5 per cent, from August 1965 to August 1966. This would indicate that this is a large issue and it is probably the one that is occupying the greatest attention of the committee at this stage. In fact, we put it number one on the list of the specific items we are going to get into. Would you have any comment on this?

I am going to offer one other suggestion, that is, that the compounded annual growth rate from 1949 to 1965 of this specific item is 1.9; or in fact the lowest one in the whole of any of the components making up the total. Do you have this chart in front of you?

Professor NEUFELD: Yes, I do, thank you.

Mr. OLSON: What explanation can you give for this, if inflationary pressure has withdrawn or diminished during the past few months and food has taken a greater increase than at any other period, going all the way back to 1949? Is it because there has been a lag in this particular item that should, in justice, have been made up long ago and is just now catching up?

Professor NEUFELD: I think the first point that should be made is that there is fairly strong evidence now to suggest that the increases in consumer prices generally lag the forces that have brought them about. In other words, if you have certain forces—excess spending and so on—that are behind the price increase, in the economy, it will take a while before the price increase actually occurs and works itself into the price level. So that, even though demand forces that have produced inflation might have levelled off early on in the year, the price increases roll on for a while and then they level off.

This is one point that should be kept in mind, that consumer prices do not instantaneously reflect the forces that have brought them about.

As to your second point, I certainly think it justifies close examination by this committee—why food prices, which have been remarkably stable over the 1949 to 1965 period, suddenly have spurted up—I cannot give you a definitive answer. In the few days I had available for the preparation of my comments, I recognized it had happened, but I did not have the time to form an opinion as to why it had happened. I think the explanation that you alluded to might well be the correct one, in that there was really a long period when food prices were tending to keep the cost of living down, and that they have done now no more

than really caught up with the other prices. However, again, I would like to make it clear that this is not an authoritative answer to the very important question that you asked.

Mr. OLSON: I have just one other point following along that line. Have you given any consideration to the relative cost of food to the other components of the costs of living and where it should be? For example, I have no doubt that this added 0.5 increase from August 1965 to August 1966—just to take one specific item of food, dairy products—is one of the important factors. Yet we find now that we have moved from a position of large surpluses in the dairy industry to an era when we are producing insufficient to meet our own domestic demands.

Is this going to be beneficial to the country in the long run, if there is not an adjustment that will bring our food prices, particularly to the producers, in line with the relative prices in the other sectors of the economy?

Professor NEUFELD: I think that my answer would depend very much on the conclusion I come to as to what really lay behind the food price increase. However, if it was in fact the case—

Mr. OLSON: I just mentioned dairies as an example.

Professor NEUFELD: I do not know anything about the prices in the dairy industry, but, if it were true that there was an element of catching up here, what would really seem to be happening is that we are seeing price increases here that will encourage more production in the agricultural sector.

Now, perhaps there has been low production, and we are seeing a price incentive arising that will correct this.

I am speculating and I feel uncomfortable because I do not have the background of information to speak with greater confidence.

Mr. OLSON: Thank you, Dr. Neufeld. The second point I want to make is just a correction or explanation of a term that you used on page 10 of your brief, and I know this has been discussed at length with some of the other members so that I am not going into it deeply. You say that "a way should be found to bring public opinion closer to the price-setting practices of all industries." Earlier in that same paragraph you also mention labour, and I presume that you would advocate that a way should be found to bring public opinion closer to the demand by labour unions and so on. However, the word "public opinion" puzzles me a little there. Are you talking about public information, or about bringing the opinion accepted by the public closer in line with these price-setting practices by industry and the demand by labour and so on.

Professor NEUFELD: What I really mean there is that I think that public opinion should be formed with the availability of more facts than it can be formed at present. The public may have an opinion about prices, but that opinion may have been formed on the basis of absence of information, and what I have in mind here is just that, if the public was aware of what was happening to prices in various industries, and, if those industries knew that the public would be instantaneously aware of them, it might change their attitude toward prices, and similarly so with wage settlements.

It may well be that I am naive, but I think that one should permit the force of informed public opinion to operate. In the absence of information that opinion cannot always be informed.

Co-Chairman Senator CROLL: You talked about being naive; are you any more naive than we are to think that that is exactly what we are doing at the present time?

Professor NEUFELD: This is why I began my remarks by saying, and I meant it sincerely, that I think this Committee serves an exceedingly useful function.

Mr. OLSON: Thank you, Dr. Neufeld. I have one other point, and I asked the same question of the Deputy Minister of Finance yesterday. It has been raised by many people over the past few months, and it is this matter of interest costs. You mentioned it in your brief as well.

Now, I appreciate that in reply to another member earlier today, you said that the interest rates in the capital market, so far as supply and demand, were working, in your opinion, exceedingly well. But the traditional economic theory is that increasing interest rates by imposing a restraint does in fact hold the price structure in line. That is a consequence of the restraint. Do you think that it has succeeded? Never mind the amount of the restraint, but on balance has the added cost of interest rate in fact assisted in holding down prices, or has it contributed to the prices and to the cost of living index during say the last 18 months to two years?

Professor NEUFELD: I think that it has assisted in keeping the cost of living down. I think that had we tried to keep interest rates low, at the levels they were a few years ago, we would have had greater increases in the cost of living than we now have.

I said before that I think the interest rate correctly reflects the supply and demand forces. In that sense it is working well. However, I want to go on now to say that we have found that while interest rates and tight money can make some contribution to controlling excess spending, there is a lot of evidence to suggest that by itself it is not sufficient, and particularly in the area of controlling capital spending by business.

There are times when business seems quite insensitive to interest cost, and this is why I think that the kind of experiment that was contained in the last budget, the experiment with what I would call the "cash flow" tax, is very interesting and very useful.

Why? Because this is an attempt to control the volatility of capital spending through fiscal means, after having quite a lot of evidence that argues that you cannot control it by interest rates and monetary policy alone.

Mr. OLSON: Do you have any other suggestions that should be used with this monetary policy?

Professor NEUFELD: I think that the cash flow tax is a very good start. It may well be that the 5 per cent was not right, because, again, we are entering a new world here. We have had no experience. It might be that it should have been 7 or 3 per cent, for all I know. It might also be that we can do more in terms of changing depreciation allowances in order to encourage business capital spending when there is unemployment, and discourage it when there is inflation.

I think that experimentation in this area must go forward. I think, though, that what we are likely to do is to make variations on these things rather than make quite new departures.

Mr. OLSON: Thank you, Mr. Chairman.

Mr. CAMERON: Mr. Chairman—

Co-Chairman Senator CROLL: Mr. Cameron, Senator Vaillancourt has one quick question.

Senator VAILLANCOURT: If you will permit me, I will speak in French. However, we have bilingual translation.

We have been discussing interest rates since this morning. For my part, I have little experience as an Oxford man or as a student of some other great university, but for sixty years I have lived with the "caisses populaires".

The "caisses populaires" are the equivalent of the credit unions in the United States and in provinces outside Quebec.

In 1910, the interest rate was 7 and 8 per cent on mortgage loans and there was no talk of inflation at the time. Moreover, a dollar was worth 100 cents, so that a $5 bill was actually worth $5. We could go to the bank and get a $5 gold piece; this is out of the question today.

In 1945, about 5 per cent of the national income of labour was mortgaged to the money lending institutions. In 1957, the rate had increased to 10 per cent and today it is 29 per cent. Now, is it not a fact that such financial institutions as Atlantic Acceptance Corporation, which lend money at 10, 15, 20 or 30 per cent interest, exert an influence on the cost of living, on inflation? Further, it may be that the high pressure publicity campaigns being carried out at present and which encourage people to buy even if they do not need to, is responsible for the rapid rise in the cost of living; for instance, people are being told: "Take your holidays now and pay later." In this connection, sometime ago I met a casual friend and I asked him: "Where did you spend your vacation this year? He replied: "In the kitchen." I said: "Why?". "Because I am still paying for last year's vacation" he answered.

So, when the professor, that is the witness, tells us that people must be better educated, it seems to me that some control should be applied to such blatant publicity which leads to inflation.

We, in the credit unions, try to help a lot of people who earn $25,000 to $35,000 per year but who owe as much as $40,000, $50,000, and $80,000—one such case came to my attention last week—but who are unable to pay their indebtedness. Why? Because of the publicity being carried out and which needles people into spending more and more in order to live better, which is sheer nonsense.

I noticed that the witness said that price control was not a simple matter. However, during the war we had price control and there were no bankruptcies, no inflation. On the other hand, living in a democracy as we do, we must enjoy a little more freedom, but this freedom must be used wisely and we should put an end to such high pressure publicity campaigns which are one of the causes of inflation. This, to my mind, is the crux of the problem.

Professor Neufeld: I think that there are two important questions here. First of all, the very acute and correct observation that many years ago in an environment of relative price stability we had mortgage rates of about 7 or 8 per cent. That was the first comment.

The second one was whether or not it is not the case that consumer credit leads to inflation both through the level of interest rate changes and through the fact that it enables people to spend more than they otherwise would. On the first point, I think it is quite true that there was a period many years ago, roughly from Confederation to just before the turn of the century, when we had substantial price stability and when, over much of that period, we had mortgage rates that were of the order that you suggest. It is, however, interesting that the longer the period of price stability continued, the more interest rates fell, I looked at the year-to-year record of interest rates from about the 1850's, to the extent that this is possible, and my observation is that the low of interest rates was reached in 1896 and '97, and in that period we saw the rates on all kinds of things, mortgages, government bonds, municipal bonds, provincial bonds, and corporation bonds being about as low as they ever have been. So I think the period would indicate that prolonged periods of price stability will cause declines in interest rates, but it is true, as you said, that we had mortgage rates in periods of stability that were fairly high. This leads me to comment about this present postwar period and to say that it is remarkable not that the interest rates are high but that they are so low in many areas. If you adjust for inflation, the actual rate savers get on their money is not very great.

I want to go on to the main part of your question which related to the impact of consumer credit on inflation. You made the comment that there were some institutions that seemed to be charging 10, 20 or 30 per cent. I would say first of all that these account for an exceedingly small part of the total credit that is granted. They are, by and large, rates that are charged by very fringe-type organizations, and I think that one could well make the case that as a minimum these fringe-type organizations should receive the glare of publicity. I cannot see much justification for interest rates of 30 per cent in the consumer credit field. But I would say in my view that is not a significant factor in terms of the total problem of inflation, because that is very unrepresentative of the price at which the great bulk of credit is, in fact, granted in this country and we are getting better and better information on what the rates actually are. Indeed, I would hazard a guess that the price of consumer credit is lower today than it was six or seven years ago, primarily because of the entry of the banks into the consumer credit field which has driven down the price many others charge. I think that situation is better now than it was six or seven years ago.

As to whether or not consumer credit and all the publicity surrounding it causes inflation, I think, first of all, it is correct that in the early part of this expansion and perhaps even well into the expansion there was a growth in the amount of consumer credit which, if it had continued, would definitely have been inflationary and therefore, I think it is as necessary to observe the behaviour of consumer credit as it is necessary to observe the growth of other types of credit. There is some evidence that consumer credit growth at certain times has caused inflationary influences just as business credit has caused inflationary forces to develop. My own feeling is that the problem at a minimum is not worse than that of business capital spending. It has been no more serious than the question of credit used by business. Therefore I don't think we need special controls to control consumer credit.

It is interesting that consumer credit has been one of the things that has levelled off in the last three, four or five months. High interest rates, tight money and so on have got through not merely to business credit but to consumer credit so that the expansion in consumer credit seems to be amenable to the forces of monetary policy in general, and because of this I think that probably our techniques for controlling it are sufficient. From time to time it has been suggested that perhaps we need additional techniques such as bigger down payments to prevent it from growing too quickly. I don't have a closed mind on that issue. I think it would be worth while if one could have in this country—and this is difficult because of the nature of our constitutional relationships—but I think it would be useful to have standy-by techniques to control excessive consumption of consumer credit, even though it seems to me that probably monetary policy in general will be sufficient to control it.

I would like to make one final point about consumer credit. I think that some of your remarks might have been interpreted to mean that consumers in general were getting out of their depth as far as the burden of consumer credit is concerned.

As far as I can see, this is not the case generally, although there are always dramatic individual examples of people using too much credit and getting into financial difficulties because of it. But if one takes the total figures of the income of people or the proportion of the population that is using credit and of the stock of assets of people, and tries to measure the burden of debt in this way, one comes to the conclusion that probably there has been no increase in the burden of debt, consumer debt, on individuals for a long time.

Again, I do not want to overstate my case. Some of my conclusions are based on consumer credit information of the United States and not of Canada. But, if anything, the United States has gone further in using consumer credit than Canada, so this generalization based on U.S. information might be valid.

But I would say one of the things we do need in Canada is better information in this area that would permit me to make this generalization on the basis of Canadian rather than U.S. facts.

Mr. OTTO: Dr. Neufeld, you are suggesting that the cost of consumer credit has no particular influence on inflation. Are you also suggesting that the wage earner is really not interested in his take-home pay, but that he is really interested in the overall package? My experience has been that the wage earner is interested in his take-home pay, and that excludes the amount of money he has to pay out in interest. In other words, if he has too much money to pay out in interest he wants more money. Are you saying that is not the case?

Professor NEUFELD: I am not saying that. You are asking me to form an opinion on the psychology of the worker. I do not know what he thinks when he picks up his pay envelope.

I would, however, make the point that the deflationary impact on total spending of interest rate increases is a lot greater than the fact that for a period costs have risen because interest rates have risen.

The simple point also has to be made that interest rates do not, in fact, keep going up and up and up. Sometimes they go down, and when they do, that brings prices down, following your argument. Whereas other costs do not come down in subsequent periods. After all, wages keep rising and rising and rising. So, apart from a once-for-all move in interest rates to a new level—and there has been no basic change in interest rates over 150 years in this country—there have been great fluctuations, but it is fluctuation within a range and, therefore, they cannot have been back of the general increase in prices that has occurred over that period.

Senator MCGRAND: Table I gives the list of countries where the minimum cost of living is much higher than it is in Canada. Would you say a word as to how that has affected the economy of the country and the prosperity of the people?

Professor NEUFELD: Each country is a story by itself and, again, I cannot pretend that I have the details of each case.

Senator MCGRAND: Just a short answer.

Professor NEUFELD: I would say that a number of those countries over the years have had serious balance of payments problems and a number of those countries have experienced exchange rate devaluation. That is one generalization one can make.

I think I would also make the generalization that the functioning of the capital market in many of those countries, in my view, has been impaired because of the existence of inflation. I think, by the same token, Canada has one of the most developed capital markets in the western world. There is still greater confidence in this country in long-term debt than there is in many of the countries that have experienced high inflation. So I would say probably another consequence of high inflation in these countries has been that it has impeded the growth of well functioning capital markets.

Whether or not one could say that the relatively higher inflation in some of these countries has resulted in certain social upheavals or political upheavals, I do not know; but I think it is true in some of those countries that there have been changes in the social and political structure that may or may not have been related to the problem of inflation.

Mr. SALTSMAN: This is a supplementary question to the one raised by Senator Vaillancourt when he asked about the role of advertising in stimulating demand under inflationary circumstances. I presume the senator was interested in your opinion regarding whether some measure of control should be taken in this area, the same type of control we might take through monetary policy.

Mr. OTTO: The senator meant advertising rather than publicity.

Mr. SALTSMAN: Is that the correct interpretation?

Co-Chairman Senator CROLL: The professor knows the question well. He has been through it before.

Professor NEUFELD: Personally, I do not think it would be very desirable to interfere with advertising in this field because it is part and parcel of the competitive process in industry. The trouble is you want to have several of these things all at once. You want a fairly competitive industry and increases in efficiency with costs as low as they can be. One of the aspects of a competitive industry is advertising. At the same time I think we should impose, through monetary policy, sufficient restraint on the lending ability of those industries so that if they have people who want more loans because of this advertising, that is their business. Let them deal with it as best they can. I do not think it is desirable to control consumer credit by controlling the advertising activity of the institutions within the industry.

Mr. SALTSMAN: I think it went further than consumer credit.

Co-Chairman Senator CROLL: Well, we will leave it.

Mr. CAMERON: I would like, first of all, to return to the question of fixed versus floating exchange rate. I was interested in what you had to say because for a long time I have felt that the fixed rate presents us with a "Hobson's choice" of inflation, on the one hand, or pursuing an alternative policy which will create unemployment, on the other.

How quickly would the self-regulating features of floating exchange rate come into operation to prevent dislocation in the economy, and what effect might Canada's return to a floating exchange rate have on our negotiations with regard to—and I know you do not want to get into this dark forest—but negotiations on international liquidity?

Professor NEUFELD: I think at this stage it could well be the people who are closest to these problems would form the view that from the point of view of strategy it would be undesirable for Canada to opt for a floating exchange rate, because they might say we are on the threshold of general improvements in the problem of international liquidity. If people who are close to this problem, whose opinion I respect, came to that view I would go along with it, but it would not change my view about floating exchange rates. I really think the best solution would be if Canada, in concert with a number of other countries, could at least move to a modified floating exchange rate, as a minimum.

Of course, there are numerous articles that recommend this and that scheme. One that recently came to my attention would involve widening the spread between the buying and selling prices of individual currencies permitting the market to operate within that spread, and then using the average of the market rates to determine a new par value at fairly regular intervals, and then permitting a new spread around the new exchange rate. I am not wedded to any particular scheme, but I can see where this might have the advantage of bringing the two camps together—the people who favour a system of floating rates, and the people who favour a system of fixed rates. I have seen nothing that would lead me to believe that a system of fixed exchange rates is better than a system of floating exchange rates.

Mr. CAMERON: I would like to come back to a question that has been brought up several times—the last time by Senator Vaillancourt—with respect to the effect of interest charges on inflationary pressures. I would like to refer you to Table 5 of the paper presented by Mr. Bryce yesterday, and ask you to look at Item 5 on that page. When I looked at this table I was struck by this rather interesting feature of it, namely, that the share of the gross national product going to rent, interest and miscellaneous investment income has risen

more sharply than in any other category except one—and I hope Mr. Hellyer notes this—that of military pay and allowances, which went up some 10.7 per cent. There has been a steady and quite dramatic rise in this since 1949.

Professor NEUFELD: Yes.

Mr. CAMERON: I wonder if you would care to comment on the possible significance of that in regard to inflationary pressures.

Professor NEUFELD: Yes. Well, I think that you will see that that process ended in about 1960.

Mr. CAMERON: No, no.

Professor NEUFELD: Item 5?

Mr. CAMERON: Yes, Item 5.

Professor NEUFELD: If you look at Table 6, Item 5 you will see it shows that the increase in the proportion of income represented by rent, interest and miscellaneous investment income reached 6.8 per cent in 1960, and in the first half of 1966 it was 6.7 per cent. Do you agree?

Mr. CAMERON: Yes, you are right.

Professor NEUFELD: So that this means that the problem, if there was a problem, ended away back in 1960, well before any of this recent inflation occurred.

Mr. CAMERON: I was just looking at Table 5 where it shows it continually increasing, but I see that in proportion to the total—

Professor NEUFELD: Yes, it ended in 1960.

Mr. CAMERON: Although the increase had been 10.7 per cent in 1965 over 1949, and 10.3 per cent in 1966 over 1965.

Professor NEUFELD: Not 10.3 per cent of that. It is just that the increase from 1965 to 1966 was 10.3 per cent, but I think that Table 6 does show that nothing much happened in terms of the income distribution in that item since 1960.

Mr. CAMERON: Yes. Now, I would like to come back to the answers you gave Mr. Basford with regard to the desirability or otherwise of imposing price controls. First of all, I should like to make clear that no one, so far as I know, has suggested complete price control over the whole range of the economy. The only suggestion made was that key basic commodities should be subject to price control. In your answers to Mr. Basford you raised three objections—at least, I got down three. The first that I would like a little more elaboration on is your statement that it does not get rid of inflation, but merely hides it. Would you elaborate on that statement a bit?

Professor NEUFELD: Well, to the extent that people have the money to spend and, therefore, have the resources with which to push up prices, but cannot push up prices because people who sell goods are told the price at which they should sell them—to that extent, the people are still left with the money, but the price level is being kept down. What do you do in a situation where the amount of money they have to spend is greater than the actual goods available? Obviously, what you have to do is start rationing, and say there will be so much to a customer. Therefore, what I am saying is that the basic problem of inflation, in the sense of excess purchasing power, has not been removed. It has, in a sense, been hidden. The next stage normally is the development of black markets throughout the economy, so the inflationary forces begin to reveal themselves through the development of black markets.

This is why I think it does not remove the problem, but merely hides it, and diverts the forces in other ways.

Mr. CAMERON: I may be stupid, Dr. Neufeld, but I do not get your argument at all. Here is my final question on this. What is the difference between imposing price controls on basic commodities, such as steel, aluminum, copper, and so on—I listed a number when I spoke in the House—the cost of which enters into every cost in the economy, and the imposition of guidelines, if the guidelines are going to be successful? Do not exactly the same arguments apply to your guideline system?

Professor NEUFELD: I do not think so. I think it is a matter of degree, sir. If one held the view, which I do not hold, that in general market prices no longer establish sensible prices, then it would make sense to introduce a system of price setting and price control. If one took the view that there are some areas where the market works so badly as to cast grave doubt on the processes that that market has established, then you might come to the conclusion that you should not have a general system of price controls, but you should have price controls in certain areas. Then, one has to make a final decision as to what areas. How far does one go? What proportion of the total price setting procedure should be represented by price fixing procedures?

Well, the principle of price fixing we have, in fact, accepted long ago, because there are some prices in the country that are controlled. What we are really arguing is as to whether this should be extended into other areas. My feeling would be that this is a matter for investigation, case by case. Steel, for example, because of the impact of foreign competition and because of competition within the industry, would be a case probably where the moral suasive influence of guidelines would be sufficient to produce pricing procedures that would be statisfactory. Other people may have a different view on that score, but that is what my view would be at this moment.

If there are other cases that should be investigated to see whether pricing procedures work reasonably well or not they, then, should be investigated on an individual basis.

Mr. CAMERON: Dr. Neufeld, I must say this; if, as you tell us, you are confident that the market forces are still operating to control prices effectively, I am at a loss to understand why you advocate the guidelines.

Professor NEUFELD: I am sorry, sir, but everything I have just said argues against what you said I have said. I did not say—

Mr. CAMERON: Perhaps I am stupid. Would you explain your remarks simply to me?

Co-Chairman Senator CROLL: You are not stupid at all. I have known you too long.

Professor NEUFELD: I want to make sure I say what I mean, and not what you mean. I think what I have said is that there is obvious evidence—after all, the control of utility rates—that there are areas where the price system does not work, and this has been recognized for a long, long time. We are not arguing extremes here, but we are arguing as to where one needs to draw the line between prices that are controlled, as some are now, and prices that need not be controlled. This is the position I stated. It is not my statement that the price system works well everywhere.

Mr. CAMERON: I may have misrepresented you there, but I did not intend to. I would like you to consider this, Dr. Neufeld. In addition to having basic factors in the whole general price structure, there are industries which are, in effect, completely insulated from public opinion, upon which you rely. I can see where public opinion, if it is properly organized, can have a very decisive effect in controlling prices at the consumer level, because these people have to deal with their customers. But, it has no effect whatever back further along the economic process. The public does not know anything about steel prices. The

only place where there is anything about them is on the financial pages, and hardly anyone reads the financial pages. Steel is not as susceptible to that public pressure that you spoke of with respect to other commodities.

Again, I would like to know what is the difference, and why price controls would have a more devastating effect with the guidelines policy you suggest, if you are anticipating the guideline policy to be effective in controlling prices.

Professor NEUFELD: Let me say, first of all, that the difference between your own feelings and mine is that I am less pessimistic about the possibility of public opinion having some influence back of the retail level than you are, and I have suggested in my comments that one of the problems has been that the public has not been given the information for it to form intelligent opinions. You are quite right when you say that the only place you hear about things such as the steel price indexes is on the financial page, and you ask who reads it. I would say that the logical conclusion to this is to give the public something it can see and will see in a new form. I would prefer this approach before I would simply go on to the conclusion that you cannot rely on public opinion and that you must impose a degree of restriction on the economy.

Mr. CAMERON: But I would point this out to you, Professor Neufeld, and I would like your answer. No matter how agitated you might manage to get the general public on the questions of steel prices, and so on, on the economy, the fact remains that those industries are not susceptible to the sort of pressures, because they are not meeting every day with the public, they are dealing with selected elements in our economy. I do not see how they can be affected. They cannot be frightened by the attitudes of the public.

Professor NEUFELD: They might be frightened in certain industries if the tariffs, for example, might come down.

Mr. CAMERON: I am in full agreement with tariffs coming down.

Professor NEUFELD: I do not put forward the contention that public opinion is the only thing by which this might be done, but I do think that we are in disagreement in degree essentially, because I think it would be worth while seeing what would happen if public opinion were given a chance.

Mr. CAMERON: On the other hand, your very advocacy of guidelines to be issued by some public authority indicates that you have not very much faith in public opinion.

Professor NEUFELD: No, quite the opposite. I think that the very existence of guidelines will make public opinion more intelligent, because if the guidelines say that certain price increases and certain wage increases make sense, and certain others do not, it is very easy for the ordinary man to relate that simple fact to what in fact is happening. One of the interesting things I have noticed since the publication of the U.S. guidelines is the frequency with which the 3.2 per cent productivity figure has appeared in articles by financial columnists and other columnists, and read by people who would never before have encountered the concept of productivity. So I think this is a case where the guideline has served the purpose of making public opinion more intelligent than it was before.

Mr. CAMERON: Perhaps the automobile companies will settle the argument in a few days, Professor Neufeld.

Mr. ALLMAND: Professor, you said we are no longer in the horse and buggy stage so far as our economic ideas are concerned, that we have a lot of valuable tools and information that can be used to combat recession and inflation. Do you think these tools can be used effectively in the Canadian constitutional structure, from the figures that were given to us yesterday, for example, comparing federal revenue and expenditure with provincial and municipal. I refer to page 2 of Table I. For the last few years the federal Government has had very large

surpluses because it has been trying to do something fiscal and monetarywise, but the provinces and municipalities have had large deficits. It appears to me that if we are to use these fiscal and monetary policies to the greatest effect we must have stronger central authority and powers, we must either have a unitary state or a strong central authority, as in the United States. I am wondering what you think as an economist, whether we can ever be really effective in fighting inflation and recessions unless we have these powers.

Professor NEUFELD: I am slightly less pessimistic than some others over our ability to pursue fiscal policies to ensure effective stabilization. I certainly think that it is necessary to keep sufficient economic power in the hands of the central government to ensure an effective stabilization policy. I think I would agree with that. What this really means in terms of the kind of split between the provinces and municipalities and the federal Government that we can have and still preserve this central power is another matter.

I think one of the most interesting things has been the great improvement in the quality of the civil servants at the provincial level.

I do not think it is impossible to arrive, through co-operation, at a stabilizing fiscal policy at the provincial level to some degree. Again, we are in new ground, and we are going to have to be patient, but I think the movement is in the right, not the wrong direction. There is also the point I think that the amount of economic power you need for purely stabilization purposes may have been exaggerated. I think that you need not necessarily have a split between the provinces and the municipal governments that you had in the past in order still to preserve sufficient economic power in the hands of the federal Government to achieve stabilization purposes. So I am not too pessimistic on this score. I think the provinces in time will develop policies that will be more and more in harmony with stabilizing growth. Indeed, it is in their interest to have it.

Mr. OTTO: But if the forces of supply and demand were completely free, you would not need guidelines; is that so?

Professor NEUFELD: That is right.

Mr. OTTO: So therefore what you are really saying is that you are substituting guidelines to bolster the faulty rules of supply and demand?

Professor NEUFELD: Yes.

Mr. OTTO: Rather than controls which are really arbitrary?

Professor NEUFELD: Yes.

Mr. OTTO: On that very subject, your paper is written, of course, under the rules of free enterprise, and we are discussing this question under the rules that are applied in a free enterprise, but you have already admitted that there are serious flaws in the supply and demand of labour and by impediment in the introduction of new equipment and machinery.

Professor NEUFELD: I did not say that.

Mr. OTTO: Well, I think that labour by its resistance towards industry bringing in new equipment has shown an impediment there. I think you have also admitted that.

Professor NEUFELD: I did not admit that, sir.

Co-Chairman Senator CROLL: He not only did not say so, he does not admit it.

Mr. OTTO: Will you admit, Professor Neufeld, that the Bank of Canada certainly interferes with free enterprise, either for good or bad?

Professor NEUFELD: No, I would not admit that.

Mr. OTTO: It does not interfere at all?

Professor NEUFELD: No.

Mr. OTTO: In other words, it allows complete, free play of supply and demand with money?

Professor NEUFELD: It controls the supply of money. The distribution of money within the context of the total supply that it permits it does not decide. This is decided in the market place, and I would say that this is one of the greatest advantages of monetary policy, that it does not interfere with many of these market processes in the way that direct controls do.

Mr. OTTO: Would you admit, then, that advertising has a great deal to do with demand, and that the people who control advertising for the suppliers of goods have a great deal to do with demand?

Professor NEUFELD: Your question is, do I think that advertising is an important factor explaining the level of total demand?

Mr. OTTO: Yes.

Professor NEUFELD: Frankly, I do not think it is; I do not think it is important. However, my opinion in this area is no more useful than anyone else's. I hope I do not buy something because I am told time and time again that I should buy it—it may be that I do, but I do not think so.

Mr. OTTO: My question was directed to get your opinion as to whether we are still functioning under a free enterprise system, or whether there are so many impediments introduced into the basic foundation of supply and demand that we should consider we are no longer functioning under a free enterprise system. Let us decide what we are functioning under, in this question of the problem of inflation.

Professor NEUFELD: I do not know of many situations which you could really classify as black and white situations. The economist refers to our economy as a mixed free enterprise system. We have had a mixed free enterprise system for a long, long time. Economists tell you there are some areas in this economy where free enterprise does work; there are others where price fixing works. In my view we have never been in a situation where we could sit back and say we have a completely free free-enterprise system. I cannot conceive of our ever having been in that position.

Mr. OTTO: We have had changes in the law of supply and demand.

Professor NEUFELD: Government spending has taken a larger amount of G.N.P. If this is a definition of a change in the free enterprise system, one would have to say yes there has been a change. But on the question you have asked, if it is to be answered on the basis of known facts, it is a very difficult question. My own feeling is that probably in a great many areas the price system works as well as it ever did, but that we have a clearer opinion now than we have had in the past as to areas where it does not work well. This is the difference.

Co-Chairman Senator CROLL: Can we declare it a draw? There being no further questions, may I on behalf of the committee say to the professor how very worthwhile this day has been. It has been an excellent presentation. It has been a successful one, in that he has clarified matters for us, and I hope that they will be clarified for the Canadian people generally. The purpose of the exercise was attained, because he said that the most important thing that we could do was to bring understanding to the Canadian people. If at the same time we can bring it to the Members of Parliament, it is that much more to your credit, professor. We are indebted to you. Thank you very much.

The next meeting will be on Tuesday morning at 9 o'clock, we will go on to 1 o'clock and then we will adjourn.

Whereupon the committee adjourned.

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 4

TUESDAY, OCTOBER 4, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. S. Ron Basford, M.P.

WITNESSES:

Dept. of Agriculture, Production & Marketing Branch: Mr. S. B. Williams, Assistant Deputy Minister; Mr. R. K. Bennett, Director, Livestock Division; Mr. A. D. Davey, Director, Poultry Division.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

24959—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

FOR THE SENATE

Hon. David A. Croll, Joint Chairman
the Honourable Senators

Carter,
Croll,
Davey,
Deschatelets,
Hastings,
Hollett,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

FOR THE HOUSE OF COMMONS

Mr. S. Ron Basford, Joint Chairman
Members of the House of Commons

Allmand,
Andras,
Basford,
Bell (*Saint John-Albert*),
Cameron (*Nanaimo-Cowichan-The Islands*),
Cashin,
Clancy,
Coates,
Crossman,
Deachman,
Duquet,
Hees,
Irvine,
Leblanc (*Laurier*),
Lefebvre,
Macdonald (*Rosedale*),
Mandziuk,
Matte,
McCutcheon,
Nasserden,
Olson,
Otto,
Ryan,
Saltsman—(24).

36 members
Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

24959—1½

MINUTES OF PROCEEDINGS

TUESDAY, October 4, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.00 a.m.

Present: *For the Senate*: The Honourable Senators Croll (*Joint Chairman*), Hastings, McDonald (*Moosomin*), McGrand and O'Leary (*Antigonish-Guysborough*).—5.

For the House of Commons: Messrs. Allmand, Andras, Basford (*Joint Chairman*), Cameron (*Nanaimo-Cowichan-The Islands*), Cashin, Clancy, Macdonald (*Rosedale*), McCutcheon, Ryan and Saltsman.—10.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

The following were heard:

Department of Agriculture, Production & Marketing Branch:

Mr. S. B. Williams,
Assistant Deputy Minister.

Mr. R. K. Bennett, Director,
Livestock Division.

Mr. A. D. Davey, Director,
Poultry Division.

(Tables and charts referred to by Mr. Williams and Mr. Davey are printed herewith as Appendices 2 and 3 respectively.)

At 12.30 p.m. the Committee adjourned until Thursday next, October 6, at 9.00 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, October 4, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Mr. BASFORD: There being a quorum present I will ask the meeting to come to order.

Honourable senators and members, we have as our witness this morning Mr. S. B. Williams, the Assistant Deputy Minister (Production and Marketing) of the Department of Agriculture. He will be making a statement on food prices, and then will be available for questioning.

Mr. Williams, it might be convenient if you, first of all, introduced to the committee all of the officials you have with you, so that we shall know who they are.

Mr. S. B. Williams, Assistant Deputy Minister (Production and Marketing), Department of Agriculture: Thank you, Mr. Chairman. Honourable senators and gentlemen, this morning the presentation will be in two parts. The proposal is that I make a very general type of statement, and following that Mr. Davey, the Director of our Poultry Division, will speak on poultry and egg prices.

I have with me also this morning Mr. Frank Shefrin and Mr. I. F. Furniss from our Economics Division, Mr. C. R. Phillips, Director General of our Production and Marketing Branch, and Mr. R. K. Bennett, Director of our Livestock Division. At later meetings these and other officials of the department will appear.

First of all, I must apologize for the absence of copies in French of the statement I am about to make. These will be available within a few moments, and before I finish making the statement, I hope.

The Department of Agriculture has been asked by your committee to appear before you to provide data in respect of prices of various agricultural commodities, either at the farm gate or at the first primary marketing level at which production and cost data is collected.

Here I wish to emphasize that the various commodities prices, because of the nature of the commodity and the nature of the marketing pattern, that are collected either by our department or the Dominion Bureau of Statistics may vary as to location. By that I mean they may be collected at what we call the farm gate; they may be collected at the factory; they may be collected at the stockyard. But, the prices which each individual official who will appear before you from the Department of Agriculture will in general be making reference to will be the price that is considered to be the farmer's price, whether or not it may involve him moving the commodity to some primary marketing position.

At this and later meetings my colleagues will deal in detail with production and price patterns for specific commodities in recent months and over the past

years, and it is therefore not my purpose this morning to comment on individual price relationships.

It will be useful, however, prior to the individual presentations to outline in a general manner some considerations in respect of the pricing of agricultural products, and the general position in which the Canadian farmer now finds himself.

We have under cultivation in Canada some 175 millions acres, or about 7 per cent of our land area. This total acreage under cultivation has not changed significantly within recent years, although the percentage of what is defined as improved land has shown an upward movement, and now totals about 60 per cent of all farm land. The census of 1941 reported some 700,000 farms. By 1961 this number had fallen to 480,000, and it is estimated that since that date the number of farms has decreased annually by about 15,000.

Farm size has expanded, averaging now some 360 acres as compared with about 275 in 1951. At the same time, capital invested in agriculture has risen by over 50 per cent in a decade, with the most spectacular increase being that for machinery which has risen by about 100 per cent.

Concurrently Canadian farmers have expanded output substantially. In the past 16 years the physical volume of agricultural production has increased by about 66 per cent. While the largest volume gains have been in wheat, poultry has shown the most sensational percentage increase—approximately three-fold. Livestock, in particular cattle, has also shown substantial gains over the same period.

This expansion in output through increased size of operation and through the employment of technological advances has permitted farmers to remain in business despite the upward movement in the costs of goods and services that they have had to purchase. Over the past 15 years the Dominion Bureau of Statistics index of goods and services bought by farmers has risen nearly 60 per cent. During that period the estimated gain in agricultural productivity was over 60 per cent. In the same period the index of prices received by farmers increased by only about 7 per cent.

Despite the very significant increase in total productivity currently agriculture employs just under 10 per cent of the total Canadian labour force as compared with 25 per cent in the mid-forties.

Since it would appear from data available that farm prices have increased significantly less than farm costs, it might be useful to consider the role played by the farmer in the entire pricing structure. Here generalizations are almost impossible and, once again, the various commodity experts who will appear before you will deal with this point from the aspect of the particular commodity or commodities that they are covering.

Perhaps the outstanding characteristic of agriculture as a sector of the economy is that it can do little to affect the prices it receives for its products. For not only is the total supply/demand picture modified by the fact that the total supply available at any time is the result of independent decisions made previously by farmers across the country but natural factors play a large part in determining the total supply.

In an effort to meet this situation and to bring greater stability to the industry, producer marketing boards have been established. Under such boards action can be taken to improve the relative bargaining position of farmers. The role and authority of the boards may vary from one of quality control and price negotiation to price, marketing and production controls.

A further factor is that in general, foods and food products can move easily from one country to another and thus the supply/demand relationship in other countries can have a marked effect on the prices that the Canadian farmer receives from his products. In fact, especially for fresh fruits and vegetables,

during certain times of the year the price may be largely determined outside the boundaries of Canada.

Some agricultural products are what might be called volatile and show remarkable response to price pressures. Included in these are commodities such as potatoes where the production-price cycle is usually short and severe, with high prices in one year bringing out more than sufficient supplies in the following year with consequent price reductions to the farmer. Eggs fall in the same category although, because of the capitalization required to establish and operate a production unit, the cycles are somewhat longer.

Perhaps the segment of agricultural production least responsive to price pressures is dairying. Here capital expenditures are relatively inflexible and changes come slowly. These changes, whether they be for increased or decreased production, represent major revisions in the capital structure of the farm, which in effect leads to stability of production.

In this connection it should be noted that food prices have different meanings for different groups of our economy. To the farmer, price is the return that he receives at the farm gate or at the nearest market point. To the consumer it is the sum total of his grocery bill at the nearest food store. While the two are related, they do not necessarily move in step.

Between the farmer and the consumer there has developed a large processing and retail distribution industry which provides each year more and more services to the consumer, thus today when a consumer purchases food at a food store he is buying not only an agricultural commodity but he is also buying a service. For this reason over the years less and less of the consumer's dollar has gone to the farmer. A study of the foods produced and sold in Canada shows that the farmer, in the first half of the 1960's, received around 41 per cent of each dollar spent by the consumer at the food store as compared with 58 per cent in 1949.

Departmental officials have made estimates of the spread between the farm price and the retail price. Here it should be emphasized that these estimates provide only a broad indication and cannot be used to measure precise quantitative relationships. Data is not available to show the proportion of the different components making up the difference. It is, however, believed that these estimates indicate the reduced influence that the price at the farm gate has on the price at the food store. The nineteen agricultural commodities that were shown in the report of the Royal Commission on Price Spreads have been looked at. These commodities were—beef, pork, fluid milk, evaporated milk, processed cheese, creamery butter, broilers, eggs, flour, bread, potatoes, canned tomatoes, frozen peas, canned peas, canned corn, fresh apples, canned strawberries, frozen strawberries, and canned peaches. It was found that, with the exception of processed cheese, butter, broilers, frozen peas and frozen strawberries, the price spread has risen substantially during the period 1949 to 1965.

A factor of some importance that has contributed to the increased cost of food has been the changed pattern of food consumption over the past 15 years. According to the latest data available, the per capita consumption of cereals dropped by 15 per cent in the 15 years starting 1950. Potato consumption also declined. On the other hand, fruit and vegetable consumption increased. Beef consumption per capita showed a gain of about 50 per cent, and the remarkable increase in the per capita consumption of poultry (109 per cent) has already been noted. On the other hand, consumption of dairy products and of butterfat has declined.

Not only has the nature of the average food basket changed over the years but in general the quality of the product, as measured by grading standards, has increased. For example, in 1950 some 16 per cent of all beef graded in Canada fell in the top two grades, Red and Blue. Today this percentage stands at 49.

Despite the quality increase and the change in the nature of the average food basket, it is of interest to note that the proportion of personal disposable income spent on food at the retail level has been declining. During the period 1949 to 1953, 24 per cent of the disposable income was spent on food. By 1965 it was down to 20 per cent.

Perhaps Table IV best summarizes the current position of the farmer, his increase in income over recent years has been almost entirely the result of expanded production.

Now, gentlemen, may we take a moment to glance through these tables. I do not intend to go through them in detail, but simply to run over them to explain them, and we will be prepared to answer any questions you wish.

(*See Appendix "2"*)

Table I is simply the indices of the physical volume of agricultural production, using 1949 as the base. You will note the figure I quoted for all commodities, namely, that total production had increased to 158.9 per cent. Also of interest is that for cattle there has been almost constant growth. Hogs remained almost unchanged. It has varied from year to year but the production has not shown any great trend since 1959. Livestock, resulting from the impact of cattle, has increased somewhat. Broilers show a remarkable gain. Eggs show a downward trend within recent years, but still upwards in respect of this year. Dairy product, essentially the same as eggs, but at a lower level. Field crops, of course, being the most erratic, because of the impact of the size of the wheat crop. You will notice the 1961 figures compared to that of 1965, which represents very largely the wheat crop.

Co-Chairman Mr. BASFORD: Are there any questions just by way of explanation of the table, but not on the statement itself?

Mr. WILLIAMS: Table II is a very simple table of farm operating expenses and depreciation allowances, supplied by the D.B.S., and it shows the number of farm operators. The third column is obtained simply by dividing the second into the first. It shows that the cost of operating a farm has increased above the figure that I quoted earlier, namely, 158.9 per cent since the base year, which was 1960, which is quite a recent base year.

Co-Chairman Mr. BASFORD: Are there any questions on that table? Table III.

Mr. WILLIAMS: I do not think I will go into detail about Table III. I believe it is self-explanatory. It is the index numbers of commodities and services used by farmers, using a much more distant base year—1935-39, and you will see later why that more distant base year is used. The most significant figure probably is labour, and possibly the last two figures are the most significant of all the figures. It shows an increase of 100 percentage points in April of this year as compared with April of a year ago.

It has just been pointed out to me, and I should call it to your attention, that these are index numbers of prices, not of the volume or total value. These are of the prices. It is not clear in the heading.

Table IV is the one I made reference to at the conclusion of my remarks as being probably one of the more significant tables that I have included. Here you will note that, while since 1949 farm cash receipts have risen to 157.5 per cent, the index of the price of agricultural products, that is, the price at the farm, has risen only by 6.6 per cent.

Mr. RYAN: May I ask for an explanation why that might be—the last item mentioned on Table IV, Index of Farm Cash Receipts, 157.5; Index of Farm Prices of Agricultural Products, 106.6?

Mr. WILLIAMS: The reason for the farm increase is tied in with an earlier table which showed that the physical volume of agricultural production had

increased by 160 odd per cent over recent years. So the increase in total farm receipts is accountable very, very largely by the increase in the physical volume of production rather than by increase in prices—according to this data which has been collected by D.B.S.

Mr. RYAN: Thank you.

Mr. WILLIAMS: Next we have the Trends in Agricultural Productivity. This shows the growth rate in agricultural production, depending on the base year and depending on the method of calculation, of approximately 2½ per cent.

Co-Chairman Senator CROLL: How does that compare with the agricultural productivity of similar countries?

Mr. WILLIAMS: There is extreme difficulty, sir, in comparing it, because of the different manners in which different countries record their statistics and the different manners in which they report them at different levels. I should say, in explanation, however, while I cannot give you at this moment exact figures, because these figures are not exactly comparable, at a recent conference of economic experts, which was held in western Canada, one of the conclusions was that the increase in agricultural productivity in Canada was commensurate with that of any of the western nations or the more advanced nations, in terms of growth; and many people felt it was higher than most.

Once again, sir, it depends a little on the year, because you will note the remarkable effect that the Canadian wheat crop has on it.

We have here a figure that, to the best of our ability, is comparable to the Canadian one, although we would not wish to guarantee its comparability. It is for the United States. There, where I have the figure 162 per cent showing the average in 1963-64, the comparable figure that we have for the United States is 126.8.

One thing which must be appreciated here is that, when we talk about these levels and these growths, a lot depends upon the level in the base year chosen. In comparing any country with a country that was relatively advanced at the time the base year was selected, the growth and the index obviously is going to reflect that position.

Mr. MCCUTCHEON: Do you have any figure for the increased productivity as compared to any other industry in Canada—or is that a fair question?

Mr. WILLIAMS: I am not sure whether it is a fair question, sir, but we have the figures.

Senator MCDONALD: Before we get into that, would it not be true that one reason why the United States is 126.8 compared to our 162 in Canada, is the fact that they have acreage control in the production of wheat in the United States?

Mr. WILLIAMS: This could easily be reflected in that. It could also be the function of the base year, that relatively their productivity might have been better at the jumping off point—because we are talking about an index here.

Senator MCDONALD: At the jumping off point in the United States they may not have had this wheat control.

Mr. WILLIAMS: That is quite right.

Co-Chairman Senator CROLL: Then I understand, as a result of the questioning by Senator McDonald, the figures you gave us are not comparable?

Mr. WILLIAMS: They may not be comparable, sir, that is correct. I tried to emphasize that at the beginning of my remarks, that it was extremely difficult to obtain comparable figures between various countries. The figure within Canada is quite comparable—between years that is to say. The comparison between years is correct for Canada, but we deliberately refrained from putting in tables for other countries, because of the difficulty. I think the

statement made at Banff, with reference to their conclusions, possibly is the best summation of the position that one can take on it.

I have a table here, which uses a different base period. It uses 1949 as the base period. It shows the index of net output per person employed. You will appreciate that this is a different figure from the one we have given earlier here, in respect of growth productivity. It is net output per person employed.

Using 1949 as the base period of 100, agriculture in 1965 showed an increase of 276.5; manufacturing showed an increase of 176.7; and all commercial non-agricultural industries showed 152.5.

The annual growth rate for the six-year period, 1960-1965—the most recent six years—was, for agriculture, 6.1 per cent; for manufacturing, 4.1 per cent; for all commercial non-agricultural industries, 2.7 per cent. These are D.B.S. figures. It has been pointed out to me that the figures I have just quoted are Bureau of Statistics figures but the calculations of the growth rate are departmental calculations based on D.B.S. figures.

Mr. MACDONALD: That would be, in the case of agriculture, on account of the experience in regard to the wheat crops in the last five years?

Mr. WILLIAMS: That is correct, sir. You will be interested in knowing that in 1961, which was the most recent small wheat crop, the index stood at 186.6. The next year, when the crop got back to normal, or possibly a little better than normal, it was up to 223.6. The year 1965 once again reflects a relatively large wheat crop.

Co-Chairman Mr. BASFORD: If there are no further questions, we will move on to Table VI.

Mr. WILLIAMS: Table VI is a calculation of tables that have gone earlier, and I need not comment on it, other than to indicate that the number of persons supported by one farm worker in terms of total food and fibre has increased quite remarkably over the last 15-16 years.

Here we have a figure that I would like to add in order to show better comparability: In 1949 a farm worker in Canada, that is, in the base year, produced enough food and fibre for 16 people; in the United States the comparable figure was 15. In 1965 the figure for Canada was 39, and the figure for the United States was 37.

The growth rate in both countries, comparing 1959-60 to 1964-65, is identical at 7 per cent.

Mr. ALLMAND: Sir, how did you determine these figures? Does this mean the number of Canadians who are supported by one Canadian farmer in food and fibre products?

Mr. WILLIAMS: This represents the total product of Canada, divided by the per capita consumption—no, excuse me, it relates our total production to the total number of persons that it would support on the basis of the average per capita consumption of Canada.

Mr. ALLMAND: It does not include the food we export?

Mr. WILLIAMS: Yes.

Mr. ALLMAND: It does?

Mr. WILLIAMS: Yes, it uses average Canadian per capita consumption figures. Actually, I believe the calculation is as follows: We calculate our total production in physical volume of production, divided by the number of farm workers, and we divide that once again by the average per capita consumption of the Canadian citizen.

Mr. RYAN: The American might consume an awful lot more than that. That would make it different.

Co-Chairman Senator CROLL: But the Hottentot might take a little less.

Mr. WILLIAMS: I am informed that the total calorie consumption north and south of the border was almost the same, but the food basket varies somewhat. The composition of the average diet as compared with the composition of the average Canadian diet, that is.

Mr. CASHIN: Americans do not eat as much salt cod as that.

Mr. WILLIAMS: I am not sure about the salt cod; they certainly do not eat as much salt butter.

Co-Chairman Mr. BASFORD: It is nice to know that Newfoundland is back with us again.

Mr. CASHIN: On a point of order, Mr. Chairman, I am accustomed not to receiving documents in my native language, Gaelic, but I would like to draw to the attention of the Chair the fact that there are not sufficient translations available of the information floating around the table.

Co-Chairman Mr. BASFORD: The Clerk will make a note of that. We will pass on to Table VII.

Mr. WILLIAMS: Table VII breaks down the index of farm prices and should be used in conjunction with Table III, which was the index numbers of the prices of commodities and services used by farmers.

You will note there, if you look back to Table III, that in 1965 the composite index of the farmer's commodities and services was 321.8; whereas, against the same base period of 1935-59, the index number of farm prices of all commodities was 272.2

The annual growth weight of his costs was 2.1. The annual growth rate of his farm prices was 1.7.

Turning to Table VIII, this is the most recent data that we have on the changes in the nature of the foods eaten by Canadians, comparing 1949-51 with 1964, and I believe that there is an error here. If you will look at the top figure over at the right-hand side, that should be percentage average 1964 over 1949-51. We do not have the figures for 1965 yet.

This simply is in support of the information that I provided in my statement. Cereals have decreased 15 per cent; potatoes 5 per cent. Fruits and vegetables: the total fresh equivalent of fruits is up 17 per cent and of vegetables is up 18 per cent. Dairy products, over all, are down about 11 per cent. However, you will notice the quite remarkable increase in cheese and in concentrated milk by-products. This concentrated milk by-product is represented almost entirely by the growth of domestic utilization of dry skim milk powder.

Turning to the meat, while the total carcass weight, or, rather, the total in terms of carcass weight, has increased by some 15 per cent, beef is up 50 per cent. Poultry: once again the remarkable rates of increase are seen here.

Table IX shows the retail value of all domestically produced foods. It shows in the second column the farm value. The third column is simply the difference between these two, and the fourth column is column No. 2, namely, the farm value, expressed as a percentage of the retail value.

I quoted the two terminal or outside figures in respect of this table in my earlier comments.

Co-Chairman Mr. BASFORD: Gentlemen, are there any questions or have you all been stunned into silence by these figures?

Mr. MACDONALD (*Rosedale*): I would be interested to hear the witness' reference to the effect on Canadian prices of international prices, that is, in both directions: International price increases and decreases.

Perhaps, if I could take different commodities, is it, firstly, a fact that the prices internationally, either in the world or in North America, can have a direct effect on Canadian prices?

Mr. WILLIAMS: There is no doubt that international prices can have a very direct effect on the prices of Canadian food products, with the exception of a very limited number of Canadian foods, where our tariff structure is such as to almost insulate the Canadian market from such imports, or where we have an active support program and where there is an actual embargo against such foods entering this country.

Mr. MACDONALD (*Rosedale*): In terms of affecting the prices, that prevents the prices from going down rather than from going up?

Mr. WILLIAMS: The embargoes and the high tariff rates, yes. There is no argument about that at all.

Mr. MACDONALD (*Rosedale*): Is it not so that in the case of some commodities the prices have gone up rather than down as a result of international changes in price? For example, take grain. Would the gradual world shortage of cereals have had an upward effect on the price of grain over the past 10 years?

Mr. WILLIAMS: There can be no other answer than yes, that there is a short supply. There is no doubt prices have gone up in recent years, and there is no doubt that the demand has been the reason for it.

Mr. MACDONALD (*Rosedale*): And when the price goes up internationally it directly affects the price in Canada?

Mr. WILLIAMS: Yes, there is no question about that either.

Senator McDONALD: Is it not true, when you are talking about cereal grains, that under the International Wheat Agreement, which is the largest cereal we are talking about, you have a floor and a ceiling, and this ceiling has not changed in the past six years?

Mr. WILLIAMS: That is correct, Senator McDonald, yes.

Senator McDONALD: But it has moved within the floor and ceiling?

Mr. WALKER: It has moved within the agreed international range.

Senator McDONALD: But regarding the world price of wheat, the ceiling has not changed in the last six years?

Mr. WILLIAMS: No.

Mr. MACDONALD (*Rosedale*): But the price has moved up?

Mr. WILLIAMS: Yes, there is no doubt about that.

Mr. MACDONALD (*Rosedale*): Within the limits?

Mr. WILLIAMS: Yes, within the limits of the international agreement.

Mr. MACDONALD (*Rosedale*): The same would be true of livestock, I take it, principally cattle? Prices, on the whole, have moved higher as a result of higher prices in the States?

Mr. WILLIAMS: I wonder if we could defer that question. We are going to have one of our expert witnesses present the entire cattle position. There is no doubt, however, I can make one broad statement, that the price of cattle in Canada is set on a North American basis.

Mr. MACDONALD (*Rosedale*): What other commodities are there that resemble those two, in the sense the prices have been moving up in the last few years?

Mr. WILLIAMS: I think the biggest two—and I am not suggesting they have moved up because of this, but they have been set on a North American basis—are hogs and certain fruits and vegetables at certain times of the year. The tariff structure in respect of fruit and vegetables is a rather complex one and will be dealt with, once again, at a later date.

Mr. MACDONALD (*Rosedale*): Alternatively, there are products, I take it other than fruit and vegetables, and products like dairy products, the price of which has been under downward pressure because of international prices?

Mr. WILLIAMS: Yes, I think at almost any time one can isolate examples of commodities which are under downward pressure because of international prices. Possibly the most significant one at the present time, in terms of Canadian diet, is sugar. The world price of sugar at the present time, I believe, is under two cents, and it is not so long ago that it was better than 12 cents.

Mr. MACDONALD (*Rosedale*): That has been reflected in the domestic retail price of sugar?

Mr. WILLIAMS: This reflects immediately in the domestic retail price of sugar.

Mr. MACDONALD (*Rosedale*): As a side question, if we had entered into fixed purchase price arrangements for sugar in years past when the price was high, we would now be fixed with a domestic cost for sugar even though the world cost abroad was low?

Mr. WILLIAMS: Depending on the type of agreement that was entered into!

Mr. MACDONALD (*Rosedale*): Yes.

Now, certain commodities—for example, butter and certain fruits and vegetables—you mentioned are protected by the tariff structure. Let us talk specifically about butter in relation to New Zealand butter.

Mr. WILLIAMS: Because of our support program for the dairy industry butter is protected by a complete embargo.

Mr. MACDONALD (*Rosedale*): This means that the prices of these products, in so far as the consumer is affected by them, are not affected in a downward direction at all by international pressure?

Mr. WILLIAMS: The price of butter in Canada is affected solely by government policy.

Mr. MACDONALD (*Rosedale*): And the same way with fruits and vegetables?

Mr. WILLIAMS: No, not to the same extent. The situation is quite different in respect of fruits and vegetables. There are no fruits and vegetables at the present time that are under any type of quota restrictions, or quantitative controls of any type. Fruits and vegetables have what are known as seasonal rates of duty. These seasonal rates of duty mean that during the time that—and this is not quite true across the whole piece; I am generalizing when I am saying this—our fruits and vegetables are in season the tariff rate is altered to provide protection. When our fruits and vegetables are out of season, the tariff rate is either removed or very significantly reduced so that the Canadian consumer does not have to pay the increased costs because of tariffs.

Mr. MACDONALD (*Rosedale*): So that the decreased cost of fruits and vegetables during the seasonal period which might otherwise result from international competition is prevented by these seasonal tariff rates?

Mr. WILLIAMS: No, in general the burden on Canadian supply brings the price during our on season—that is to say, the on season of production in Canada—well below the price during the off season.

Mr. MACDONALD (*Rosedale*): But the price would probably drop even more but for the seasonal tariff rates?

Mr. WILLIAMS: You are asking a hypothetical question, and all I can give is a hypothetical answer. It would depend entirely on the supply in the country of origin.

Mr. MACDONALD (*Rosedale*): Did we put the tariff in there for hypothetical reasons, or did we have something in mind?

Mr. WILLIAMS: The basic reason why it was put in in this manner was to protect Canadian producers against what might be called tail end crops from our neighbour to the south. Let us take corn on the cob, which used to be a

straight seasonal crop here. South of the border their crop comes on considerably earlier than ours. It is possible for them to move in—and I am saying this as though they were doing it deliberately, but it is simply the merchandising procedure followed by the trade, and not anything deliberate in that sense of the word—but it is quite possible for them to market the tail end of their crop here at the time when the first of our crop is coming in, and move a commodity in that is, in essence, surplus to their total requirements at a time when our people feel their product should be bringing the top price.

Mr. MACDONALD (*Rosedale*): This marketing practice would not really amount to dumping, strictly speaking?

Mr. WILLIAMS: It does not come under the technical definition of dumping, because they are not selling here any more cheaply than they are selling there.

Mr. MACDONALD (*Rosedale*): With respect to poultry, are the same phenomena in effect as regards fruits and vegetables? From time to time is there need for protection of the Canadian producer because of the low cost of American poultry coming on the market?

Mr. WILLIAMS: The Canadian producer certainly is of that opinion, sir.

Mr. MCCUTCHEON: I have one supplementary to Mr. Macdonald's (*Rosedale*) question. In connection with beef, I got the inference from his question and the reply that while we are on a North American market for beef, the pressure is always upward. I do not think you want to leave that impression with this committee, that the price is always up.

Mr. WILLIAMS: I tried to explain that when I was answering the portion of the question relating to hogs, where I said that pressure could be in either direction. It is in either direction with all these commodities, and it is not restricted to any one commodity.

Mr. MACDONALD (*Rosedale*): How has the trend of pressure been in the last five years on hogs and cattle? Has it been upwards or downwards?

Mr. WILLIAMS: I am going to have to ask Mr. Bennett to answer that as a particular question, but it has been in both directions.

Mr. R. K. Bennett, Director, Livestock Division, Department of Agriculture: It has definitely been in both directions, depending on the volume of marketings which are tied to hog cycles or cattle cycles. To be specific, with hogs the pressure was upward beginning about May, 1965; and then in the last month the trend was definitely downward.

Senator MCDONALD: Would it be true to say that there was a change from an upward pressure to a downward pressure in this same 12-month period?

Mr. BENNETT: Within a month it could change.

Mr. MACDONALD (*Rosedale*): How responsive are retail prices to these variations in respect of, for example, the price of hogs? What is the observed result there?

Mr. WILLIAMS: I am afraid that in respect of hogs we are not in a position to give a categorical answer. We do not collect prices at the retail level in the department. We collect all of our prices at the primary level, as I explained earlier, and I am afraid I cannot give you a categorical answer.

Mr. MACDONALD (*Rosedale*): But your observation was that up until recently there had been a trend in hog prices.

Mr. WILLIAMS: But Mr. Bennett was referring to hog prices to the producer; not necessarily at the retail level.

Mr. BENNETT: I was referring to hog prices on the market, and that is the price to the producer.

Mr. MACDONALD (*Rosedale*): What effect would that have on the retail price?

Mr. WILLIAMS: All I can say, once again, is that we do not collect specific data on this, but as a generalization as producer prices go up there is definitely a relationship.

Mr. MACDONALD (*Rosedale*): In other words, the retail prices would go up—not by the same percentage, but they would go up?

Mr. WILLIAMS: I think I would have to say: Yes. They may not go up immediately. If it is a short term switch they may not go up at all, or they may go up without any change in the price. While they are related they do not move hand in hand.

Co-Chairman Senator CROLL: But, Mr. Williams, the rise in the price of bacon in this country in recent weeks and months has been notorious. Do you mean to say the Department is unaware of it?

Mr. WILLIAMS: We are well aware of it, sir.

Co-Chairman Senator CROLL: Then tell us what you are aware of. I can tell you what my wife tells me, but that is not evidence.

Mr. WILLIAMS: I am afraid I am in the same position, sir. We do not collect prices at the retail level.

Co-Chairman Senator CROLL: No, but somebody does collect them in the Department. The Dominion Bureau of Statistics collects them. I am asking you what you are aware of. You happen to be the witness, and I am not, so tell us what your wife told you.

Mr. WILLIAMS: I am not too sure as to whether she would like me quoting her, but I am quite prepared to do so. I think that the price of certain processed products has within recent time not followed as closely as it has in previous years the upward or downward movement in hog prices or other meat prices at the producer or primary level. Mr. Bennett will be quite prepared to deal with this question, because he has the data available, when he appears as a witness. He will give you an outline as to the prices received by the producers of hogs during every month right up until the month of September.

Co-Chairman Senator CROLL: But, Mr. Williams, that is not good enough for us. I am sure Mr. Bennett will give us all those prices, but we have to have some comparable figures. You are the head of the Department, and I do not know why you should not be quite outspoken. However, that is your prerogative. What you said, in effect, if I understood you, was that the relationship between the price of hogs at the farm and the price of bacon on the table was not quite as normal as it had been ordinarily. Is that right, Mr. Williams?

Mr. WILLIAMS: That is correct, sir.

Co-Chairman Senator CROLL: Was it down or was it up?

Mr. WILLIAMS: It was up, sir. I have here, sir, a document entitled: "Prices and Price Indices, July, 1966", published by the Dominion Bureau of Statistics who are the people who collect the retail prices. It shows that side bacon, fancy, sliced, rind off, per half pound, in July, 1966 was 65.9 cents; in June, 1966 it was 64.3 cents; in July, 1965 it was 58.0 cents; in June, 1965 it was 52.5 cents; for the entire year 1965 it was 56.2 cents; and for the entire year 1964 it was 47.6 cents. So, we have here comparable figures for the year 1964 of 47.6 cents per half pound, and for July, 1966 of 65.9 cents per half pound.

Co-Chairman Senator CROLL: That is per half pound, so the price per pound was $1.30?

Mr. WILLIAMS: I have here, sir, hog prices at Toronto per 100 pounds.

Mr. MACDONALD (*Rosedale*): That is in "Hogtown" too.

Mr. WILLIAMS: This is the wholesale price of hogs. It is not quite the figure that I would like to have. It is not quite the price to the farmer; it is the price that hogs are traded at—the wholesale price.

In June, 1966 it was $37.39 per one hundred pounds; in June, 1965 it was $33.81 per one hundred pounds, an increase of approximately $3.50 per one hundred pounds. That compared with a bacon price that went from 52.5 cents to 63.4 cents per half pound in those same months.

Co-Chairman Senator CROLL: While the increase in the price of the hogs was what?

Mr. WILLIAMS: The price of the hogs went from $33.81 per one hundred pounds to $37.39 per one hundred pounds.

Co-Chairman Senator CROLL: There is $4 there; is that right?

Mr. WILLIAMS: About $3.50, sir.

Co-Chairman Senator CROLL: And by the time it got to the retailer the price had gone up 12 cents per half pound?

Mr. WILLIAMS: Yes, twelve cents per half pound.

Mr. MCCUTCHEON: In Toronto in July the price of hogs hit $44, while bacon in the supermarket was $1.07 per pound in my area of Chatham. Hogs are now $33 per one hundred pounds, and bacon is $1.37 a pound in the same supermarket. Mr. Bennett, is this what you refer to as a normal or an abnormal following of trends?

Mr. BENNETT: I would like to say, Mr. Chairman, that the supply of hogs, due to the supply situation, will at times move quite drastically one way or the other. The product from those hogs in a general way—particularly the bacon product, or the cured product—does not show up on the counters for at least two weeks, so I can only assume that the chain stores or the large retailers do not adjust their prices directly, but wait until it is evident that there is a definite trend either up or down in prices. This is my understanding of what they do. I have no knowledge of what they actually do, but I assume that that would be the procedure which they adopt. Therefore, when the price of hogs, as you will recall, went very dramatically up to the $44 mark the general feeling or belief among the retailers at that time, I assume, was that this is not going to stay at $44, so there was not a move to put the retail price completely in line with it at that time. It may be fair to assume that at the price that they have settled out at, the price of bacon is at this time what they would call a normal relationship to the price of hogs.

Mr. MCCUTCHEON: I don't think that would satisfy the housewife.

Mr. WILLIAMS: If you refer to Table IX you will find that it shows what the long-term trend has been as opposed to the short-term trend.

Co-Chairman Senator CROLL: I intend to question you on that table when the others have finished.

Senator MCDONALD: In Table IX, in 1949 the total value of raw food materials is given at $1,234,000, which were handled at the retail level in the amount of $2,111,000; in other words, not quite double, but by 1964 the value had increased to $2,043,000, not through increased prices generally, but through increased production; but they had by that time more than doubled, when you arrive at the retail value. In other words, from the evidence that you have given and the totals you have presented us, two significant things have happened so far as agriculture is concerned over this period. The value of agricultural products has increased because of increased production, but their value has not increased because of an increase in the value per unit; and if the cost of living is increasing in Canada year by year, and everybody knows it is, it is not because farmers are getting higher prices, by and large. Is this true?

Mr. WILLIAMS: If you turn to Table IV it shows that since 1949 farm prices have fluctuated up and down, and in the last five years—well, you will all recall farm prices in 1951 and 1952—you will see there the indices were the highest they have been within this period under consideration, but over the whole period the total growth up to and including the year 1965 is 6.6 per cent in farm prices, whereas the increase in productivity in terms of total return, which includes the increase in price, the 6.6 per cent, was 157.5, or 57.5 per cent increase.

Mr. McCUTCHEON: I think what the senator was after was the fact that on Table IX the farm value of raw food materials was $1,234 million, while in 1964 it was $2,043 million.

Mr. WILLIAMS: If you look at the fifth column on the right hand side, you will see that in 1949, 58 cents of what was spent went to the farmer, and in 1964, 41 cents.

Co-Chairman Senator CROLL: What is wrong with answering Senator McDonald's question by saying for the record that the farmer is not getting any larger portion of the whole pie than he got formerly, and it seems to be less?

Mr. WILLIAMS: That is exactly what I said in my statement, sir, and I said his increase in income over recent years has been almost entirely the result of expanded production.

Co-Chairman Senator CROLL: But that is saying it in an indirect fashion.

Mr. WILLIAMS: I am quite prepared to say it in a direct fashion, that from the data available the increased return the farmers in Canada have had in past years has been almost entirely the result of increased productivity, and only 6.6 per cent of that toal increase in their cash receipts can be attributed to an increase in their prices.

I might further go on to say that these indices that we were working with in terms of prices are only up to and including the year 1965. I have the figures up to and including the year 1966, and the index for July 1966 was two percentage points lower than the average for 1965.

Co-Chairman Senator CROLL: Could we have those figures?

Mr. WILLIAMS: These are preliminary figures, but for the month of July, which is the latest figure, there is no change in the index of farm prices as compared with the entire year 1965 which I have reported in the table. For some of the earlier months this year there were increases over and above the average for 1965, but these were all very marginal. The highest month is March, where it increased 7.3 percentage points. Once again, it was pointed out to me that these indices for the month of July do not include final payments from the wheat pool.

Co-Chairman Mr. BASFORD: Could you give to the committee those figures so that they could be added to the table we already have, for the members?

Mr. WILLIAMS: Yes, most certainly. If you turn to Table VII, that is the best way to add them, because they are quite comparable there. If you would add to 1965, just below it, 1966, I will give you the months, and this is for all commodities: January, 277.6; February, 283.9; March, 279.5; April, 276.6; May, 278.8; June, 277.9; and July, 270.0.

Co-Chairman Senator CROLL: Mr. Williams, I may have misunderstood you, but take a look at Table IV for a moment. I understood you to say that that index of farm prices of agriculture by July 1966 had dropped from 106.6 to 104 something. Is that what you said?

Mr. WILLIAMS: No, sir. We are under difficulty here, because of different base years used. This is why I chose to use Table VII, which uses the base years 1935-39. These were chosen because the index for commodities and services

used by farmers is based on those same years. This was to make that table comparable to Table III.

Table IV, however, that we are speaking of, brings it to a more recent year and uses the base year 1949. So they are the identical figures really calculated on a different base year.

Co-Chairman Senator CROLL: Except that the figure of 106.6 becomes 106.4?

Mr. WILLIAMS: No, sir. What really happens is that in Table VII the figure 272.2 for 1965 becomes 270.0 for July. Now, exactly the same components are in that but a different series of base years was used.

Mr. ALLMAND: Mr. Williams, in Table III showing the list of costs to the farmer, farm wage rates shows the greatest increase to be 4.01 per cent from 1949 to 1966. Is this the total wage bill of Canadian farmers? That is one question. Secondly, does it include the income of the farm owner, or just the wages he pays to his helpers?

Mr. WILLIAMS: In answer to the first part of the question, first of all, it is not the rate since 1949: it is only the growth rate in the last five years, from 1960 to 1965. It refers to prices, not total value. It only includes hired labour.

Mr. ALLMAND: In the previous table, Table II, it shows total farm operators had decreased by 4 per cent from 1960 to 1965, but despite that, the wages paid to hired labour have gone up by 4.1 per cent.

Mr. WILLIAMS: That is the annual rate at which it has increased, yes. On Table II, the people included there were operators operating for their own account, and employers.

Senator MCDONALD: I should like to make it clear that committee members should realize the significance of these questions. The number of farm operators has gone down 4 per cent in the period 1965, but this increase in farm wages is not an increase in the total amount of money being paid for farm wages: it is an increase in the rate of wages. Is that right?

Mr. WILLIAMS: That is correct.

Co-Chairman Senator CROLL: Senator McDonald will also admit it was about time it did that.

Senator MCDONALD: I will not deny that.

Mr. MACDONALD: Can we refer to Table IX? In the second column from the right, the difference between the total farm retail value and the value of raw food materials—are you, or someone in your group, in a position to comment and answer questions on the components of that figure, the components of food processing industries.

Mr. WILLIAMS: We have no breakdown on that. Possibly a later witness, from the D.B.S., will be able to provide that. We are using D.B.S. figures.

Mr. MACDONALD: Perhaps I might put a question to the chairman. I apologize for not being at the previous meetings. I was away at the United Nations. Have you had a witness from food processors, retailers, and so on? That is one cost component.

Co-Chairman Mr. BASFORD: No, we have not.

Mr. MACDONALD: Would it be a valid generalization to say that, in part, that figure has risen between 1949 and 1964 because of the consumer willingness or demand to have great service put into food, in the form of better packaging, food of great sophistication, frozen food, and so on?

Mr. WILLIAMS: I think it is a fair statement to say that there is a component here that represents more sophistication, packaging, and further freezing.

Mr. MACDONALD: I have a final question. On page 6 of your brief, the last two sentences of the first paragraph. You noted that "the proportion of personal disposable income spent on food at the retail level has been declining" and you indicate the percentages. Is it not a fact that, as average real incomes go up, and this is for the country as a whole, inevitably that percentage will decline?

Mr. WILLIAMS: Certainly it is a function of the level of income, at the efficiency of the agriculture within the country, and the amount of protection afforded agriculture within the country.

Mr. MACDONALD: It may be that I can put the question in another way. If all have higher real incomes, then we will be spending a smaller proportion of our real incomes on food, will we not?

Mr. WILLIAMS: In general, the demand for food is less elastic than are other demands, so I think the answer must be yes.

Mr. MACDONALD: Thank you.

Mr. RYAN: Could the witness give us any idea of the percentage of domestic produced foods retailed in Canada, and the percentage of foreign produced foods retailed in Canada?

Mr. WILLIAMS: We export about 30 per cent of our total production, and we import about 20 per cent of our total consumption. Our net trade balance, in terms of agriculture or production, is favourable by about that 10 per cent. These are round figures. I will get you the exact figures, but I am quoting only round figures. The percentage that exports contribute vary almost exactly with our wheat crop.

Mr. ALLMAND: On page 5, at the beginning of your second paragraph, you say:

> "A factor of some importance that has contributed to the increased cost of food has been the changed pattern of food consumption over the past 15 years."

I do not know if you read them or heard them on the radio—would you be willing to comment on the statements by Mr. Loeb? He said that one of the reasons for the increased cost of food was this changed pattern in food consumption, something similar to what you have, that the housewife or consumer demanded a better type of food, demanded, for example, things already processed rather than, let us say, prepare it for themselves; and because they are demanding this, this has forced up the price of food products—of course, this is at retail. Since you made that comment, I wonder if you might comment on what you think of his statement.

Mr. WILLIAMS: My comments referred not so much to the increased sophistication of packaging but to the fact that the diet had in fact changed, by a reduction in the starchy components of the Canadian food basket, namely, cereals, flours, potatoes, to an increased protein diet as evidenced by the increase in fresh fruits and vegetables and as evidenced by the increase in meats also. I was not really referring to sophistication of packaging but I do believe, and I mentioned it earlier, that this has been a contributing cost.

Giving you solely a personal opinion at this time, I think this has been partly brought on by the percentage of women at the present time employed outside the home. Once again, as a personal opinion, I think it has been motivated to quite a large extent by the very large percentage of women employed outside the home as compared with 15 to 20 years ago.

Senator O'LEARY (*Antigonish-Guysborough*): This is because they have not time to prepare the raw materials.

Do you have the producers figures for the price of meat, New York versus Montreal?

Mr. WILLIAMS: We do not have them with us. These will be given by Mr. Bennett—not versus New York but versus the big market that assists Canadian prices, the Omaha market rather than the New York market.

Co-Chairman Mr. BASFORD: Mr. Bennett will be giving evidence later in the week.

Senator McDONALD: I want to go back to the statement that we are eating more protein and less starch and that part of the reason is that so many women are now in the work force. Is it also not true that, in so far as the standard of living of the country increases, the consumption of proteins increases and the consumption of starches goes down? Does this not reflect the fact that Canadians are living better today than ever before?

Mr. WILLIAMS: I did not make myself absolutely clear. That is correct. But the point I was trying to indicate was that the increased degree of sophistication in packaging and processing was part at least the result of the percentage of women employed. I did not intend to imply that the change in the food basket was a result of this. You are quite right: it is an indication of a higher standard of living.

Mr. CASHIN: As everybody else has done, it would seem, Mr. Williams, that wives who do not work also like to buy processed and packaged foods?

A MEMBER: You will get into trouble over that one.

Co-Chairman Mr. BASFORD: I think the witness might decline to answer that. Are there any other questions?

Mr. CASHIN: Both the witness and myself seem to be eating plenty of potatoes.

Mr. McCUTCHEON: I have one further question. We realize that a better standard of living has developed in this country over the past many years, and, as you pointed out, this is the protein factor; but many of us, having grown up in the depression years, are old carbohydrate eaters from away back.

However, the point I was wondering if you would care to comment on was this: Mr. Macdonald (*Rosedale*) brought out the fact that a lower percentage of the income is used now in food, as this table shows. I do not think it is fair just to leave the impression that all of this has been caused by an increase in the standard of living. I would hazard a guess that a tremendous part of this thing has been brought about by the excellent efficiency of our farm people. Probably as much has been brought about by that as by the increase in the cost of living. Would you care to comment on that? It appears to me from the figures and information that we have here that our farm people are just "efficiencing" themselves right out of the business.

Mr. WILLIAMS: I tried to cover that in my remarks, sir, where I indicated that the physical volume of agricultural production had, in the past 16 years, increased by about 66 per cent and that it was only by the fact that farmers had been able to increase their physical volume of production that they had been able to meet, in part at least, the increased costs of the commodities and services that they had to buy.

I said that this had not been met, except to a very minor extent, by increases in the prices that they received.

Mr. McCUTCHEON: But it was implied that the features that are there, increased wages, increased salaries, cut down, in a family, the amount of total income that was required for food.

My point is this: The efficiency of the farmer has contributed to that just as much as the increased wages in this country have.

Mr. WILLIAMS: I think there may be a misunderstanding here. I do not believe I ever said that it cuts down the total amount of money they had to

spend. The only thing I referred to was the percentage of money they had to spend.

Mr. McCUTCHEON: I guess I did not make myself clear.

Mr. WILLIAMS: Certainly, had the farmers of Canada not been able to increase their efficiency, there would have been no alternative to major increases in prices; and, possibly, the percentage of disposable income would have remained constant or even increased.

Senator McGRAND: Is there any way to determine the increase in the cost of living resulting from the increase of the cost of packaging?

Mr. WILLIAMS: I am sorry, sir, but I did not hear the first part of your question.

Senator McGRAND: Is there any way to determine the increase in the cost of living owing to the increase in the packaging of food that has gone on in the last few years?

Mr. WILLIAMS: We do not, sir, have any information on that, I am afraid.

Co-Chairman Mr. BASFORD: We hope, Dr. McGrand, to have some evidence on that later, if we can obtain it.

Mr. ALLMAND: Mr. Williams, you were referring before to the lag in the action between the change in rail prices and the price at the farm. You said that sometimes it takes a couple of weeks. I was wondering what the usual time is, let us say, between the date when some meat is sold from the farm and the date when it is actually sold at retail? Does that vary a lot, let us say in big cities especially? When I go into a store, for instance, and buy bacon or any meat, could it have been stored there for a long time or is it generally sold a couple of weeks or a month after the time it is actually butchered?

Mr. WILLIAMS: Beef is normally sold within two weeks of the date of slaughter. Fresh pork is probably sold within three or four days. Cured and processed pork may be sold almost any time after butchering, but on the average, I am informed, is sold in a month. Fresh poultry is sold almost immediately and is comparable to hog. Frozen poultry, however, may be marketed after two or three months. Certainly, turkeys are held, on an average, for two or three months, but I am informed that they can be held for as long as a year in certain cases.

Mr. ALLMAND: I have one other question. Does your department have figures or statistics which show how quickly consumers react to changes in prices? For example, if the price of beef or chicken should go up, would people go back to hamburger or would they start eating fish?

Co-Chairman Mr. BASFORD: Mr. Allmand, I wonder if you would mind speaking into the microphone?

Mr. ALLMAND: I am sorry. Is there a hesitancy on the part of the consumer, once he gets used to high-grade meats and more protein foods, to go back to, let us say, carbohydrates?

Mr. WILLIAMS: I do not think I can answer that categorically, because it depends very much on the type of food. Beef, for example, shows very little producer reaction in terms of price. People apparently buy beef because they like it; they do not change their purchasing pattern much in response to price changes. The pattern changes quite quickly for some of the other meats as well as for some other products.

Eggs is one of the more quickly changing products. When the price of eggs goes up, people tend to cut back their purchases. On the other hand, when the price goes down, they do not tend to pick their purchases up. The response does not seem to be very fast when the price goes down.

In butter we have a good example of the response of the consumer to price changes. You gentlemen will recall that in 1958 the price of butter in Canada, and this is the wholesale price as handled by the Agricultural Stabilization Board, was increased from 58 cents to 64 cents. There was immediate consumer reaction, and consumption dropped from approximately 19 pounds to about 15½ pounds per capita.

Mr. ALLMAND: How would you say that affects the sale of margarine?

Mr. WILLIAMS: The sale of margarine was hardly affected at all in that case. There was some increase. In 1962 the price of butter was dropped from 64 cents to 52 cents and almost all the loss in consumption per capita was regained. Total consumption was not regained, but there was a change in population in Canada over those years, so that almost all of the loss was regained. It did not quite come back up. The per capita consumption suffered about one-half pound by the change.

Incidentally, when this increased there was very little change in the per capita consumption of margarine. It represented increased usage almost entirely. However, this did indicate that one particular commodity at least was price sensitive.

Co-Chairman Mr. BASFORD: Could I ask one question in conclusion? You have commented on the change in the nature of the contents of the food basket. Do you know if D.B.S. has changed the weighting that it gives to the ingredients in the cost of food index?

Mr. WILLIAMS: We cannot give you those in detail. There have been some adjustments in the food basket, and I think possibly, sir, that representatives of D.B.S. will appear before you and will be able to give you in detail exactly what those adjustments have been.

Co-Chairman: I would like to thank you, Mr. Williams, for your formal statement this morning and for answering the questions of the committee.

Mr. Williams and his department are readily available to the committee and we might well have them back again.

Our next witness is Mr. A. D. Davey, Director, Poultry Division, Production and Marketing Branch, Department of Agriculture. At the moment, however, I am going to suggest that we adjourn until five minutes to 11.

—Upon resuming at 11 a.m.

Co-Chairman Mr. BASFORD: I call the committee to order.

Our next witness is Mr. A. D. Davey, Director, Poultry Division, Production and Marketing Branch, Canada Department of Agriculture, who has a prepared statement which, I trust, has been distributed.

Please go ahead, Mr. Davey.

Mr. A. D. Davey, Director, Poultry Division, Production and Marketing Branch, Canada Department of Agriculture: Ladies and gentlemen, as indicated in the package that you have before you, we are dealing now with the poultry situation. In that package, in addition to the outline of the material which I am about to go through—and it is available in the two languages—there are also tables dealing with marketings for turkeys, broilers and eggs, as well as charts setting out some of the tables in a graphic form. These tables will appear in the report of proceedings at the end of my presentation.

(*See Appendix "3"*)

The following material submitted by the Poultry Division, Canada Department of Agriculture, is based on volume and price data gathered from registered commercial hatcheries, registered egg grading stations and registered

poultry processing plants throughout Canada. The statistics gathered from these various plants cover a very high percentage of the total hatched, marketed and/or processed in Canada. Involved in the departmental programs particularly for the marketing of eggs and poultry meat is the requirement of grading which involves the use of the nomenclature such as "Canada Grade A", this normally being considered to be the consumer grade. This same basis of grading also applies in settlement with producers for most poultry products.

The statistics gathered from the phases of industry already referred to includes data related to production, volume of product marketed, prices paid to producers and many other details. It is gathered from a broad industry area in numerous marketing centres in each province, is processed through the various provincial offices of the division and is published by the Department of Agriculture in the Weekly Poultry Market Report.

Through this medium there is adequate statistical data made available, particularly on the quantities of laying stock, chicken broilers or turkey poults placed on farms along with extensive marketing data to allow interested parties to reasonably accurately forecast production and marketing trends and the likely influence of such trends on producer returns.

Returns to Canadian producers for poultry products are basically dependent on the Canada market trends. Although, on the one hand, these market trends may at times be influenced in varying degrees by importations or even possible importations, on the other hand, Canada is presently exporting only limited quantities of poultry products.

Dealing now with poultry meat in general:

The remarkable increase that has occurred in poultry meat production over the past decade is unparalleled in the field of agriculture.

The total tonnage of turkeys and chicken processed in 1965 was in excess of five times greater than in 1955. This increase has been greatest in the small broiler weight turkey and the broiler chicken—two very popular consumer items.

The consumer demand for poultry meats has risen steadily over the past 10 to 15 years. In the five year period of 1961 to 1965 per capita consumption of poultry meat at 33 pounds, was twenty-one percent above the 1956 to 1960 period and fifty-six percent above the 1951 to 1955 period.

The per capita consumption of poultry meat reached 36 pounds in 1965 and is expected to be approximately 39 pounds for 1966.

This increased consumption of poultry meat has been the result of the continuous availability of large quantities of good quality product in forms easily prepared by the consumer and at prices that she was prepared to pay.

These advances have been possible as a result of the rapidity with which all segments of the poultry industry have made use of the latest technological developments in poultry raising, marketing and merchandizing. In addition, extensive information has been made available to the consumer in the preparation and serving of various poultry dishes.

Dealing now with turkeys:

Turkeys are marketed in three weight groups, the turkey broiler which is under twelve pounds live weight, the medium weight mature bird which is between twelve and twenty pounds and the heavy mature bird over twenty pounds. The heavy mature birds are largely for institutional use.

Prices to producers for all weights of turkeys have remained reasonably constant over the past five-year period as will be seen on the table dealing with volume of turkeys marketed and related monthly prices to producers.

If you want to turn to the top set of tables in your package, you will see there under the heading, "Turkeys". "Total volume processed by months in Canada (eviscerated weight) and monthly average live weight prices per pound

paid to producers, London, Ontario." We have picked one particular point because we cannot give you the prices at all points.

In this table it shows, in three sections, the volume month by month and the price for the periods 1962, 1963, 1964, 1965 and 1966 to date.

The top table shows this information for broiler weight. In the centre of the page is the table showing the same material for the medium-weight mature bird. And at the bottom of that table is shown the material for the heavy-weight bird.

In each case we have shown totals for the year, average prices for the year; and across the bottom of the page you will find information showing the increase in the total tonnage of turkeys processed through registered grading stations over that five-year period. You might be interested to note that in 1966 the volume to date—that is, to the end of August—is running at about 76.7 million pounds, compared with 59.3 million for last year, and 45.4 million two years ago. This shows the increase that is continuing to take place.

Average farm value of turkeys for the five year period 1961-65 has dropped twenty-five percent from the five year period 1951-55 and thirteen percent from the period of 1956-60.

Now dealing with chicken broilers:

As already stated the production of chicken broilers over the past ten years has increased rapidly and will likely continue to do so.

I might add, but probably not with the same relative rapidity as it has in the last 10 years. As indicated on the tables relating to the marketing of broiler chicken the prices that producers have received over the past five years have fluctuated only in a limited way, with the exception of occasional periods of overproduction such as in the Thanksgiving and Christmas seasons when turkey holds the centre of popularity as the meat dish.

Similar to the price situation with turkeys, the five year average for chicken for the period of 1961-65 was thirty-one percent lower than the 1951-55 period and seventeen percent lower than the 1956-60 period.

Before leaving broilers, I would refer you to the second table in your package which sets out the volume of broiler chickens processed at registered processing plants. This is again by months, showing the average price for the month, starting with 1962 and running through to August of 1966. Here again, I might point out that as of the end of August, 1966 the volume processed through registered processing plants was 243 million compared with 214 million to the end of August, 1965 and 203 million to the end of August, 1964.

In other words, from 1966 to date is 13 per cent over the same period in 1965, and 20 per cent over the same period in 1964.

It has been drawn to my attention that in the meat picture the prices on these tables are live prices paid to the grower at the registered processing plants. These are not the dressed or eviscerated prices. These are the live prices, but the weights are the processing weights as they go through the plants, so they are the eviscerated weights.

So much for poultry meat, and I come now to the egg picture.

Although egg production has also benefited from modern technological advances providing greater efficiencies, similar to that achieved in poultry meat production, egg production has not yet achieved the same state of uniformity in volume of production as is the case with poultry meat production. With poultry meat production, the volume trend seems to be steadily upward whereas with egg production there is still a tendency to definite cycles of long and short supply. In egg production there are many more people involved in making decisions concerning the extent of production, as a result changes in production can be more pronounced and supplies can more easily get out of balance with domestic requirements.

In addition small swings in supply from a short position to a surplus position seem to result in much greater variation in producer prices for eggs than in many other agricultural commodities. Frequently the change in price in either direction is more marked than the change in volume would indicate. A possible combination of reasons for this tendency is

(1) although egg production is tending to develop on the basis of egg sheds around large consuming centres, there are frequently quantities of quality eggs available from more distant production centres, and

(2) eggs for table use are not considered to be a storable product; the "shelf life" of the modern egg is reasonably short.

Prices paid to producers for eggs delivered to grading stations throughout each year have reasonably similar annual seasonal patterns. The level of the seasonal trend may, however, vary from year to year depending on the overall volume of production.

The trends of the past four years demonstrate exactly what can happen relative to egg production.

Mr. Williams, I believe, in his report made reference to this lack of stability, and we will see it as we refer to the charts on eggs.

The relatively high prices received by producers in 1963 resulted in a substantial increase in the number of chicks raised for egg production purposes during the last half of that year and into early 1964.

Before I go further I will explain this chart behind me. In actual fact it is the first chart you have in your group of charts, but in order to make it a little more easy to follow we have put the lines in in colour. This chart behind me is the same as the one in front of you for the Canada Average Weekly Volume of Canada Grade A Large Size Eggs.

If I may move back here, I will say that this blue line is the trend of our marketings for 1964. The three sets of lines at the bottom show the trend of volume of eggs marketed. The three lines at the top show the prices related to the volumes marketed. These are the prices to the producers, delivered to the registered egg grading stations.

The substantially increased volume of eggs marketed commencing in early 1964 resulted in a downward trend in producer returns throughout the balance of that year and the first half of 1965. This blue line shows the year 1964. We are now moving into our increased volume, starting here on the chart, and we do get a slow step-up here. I might also point out that these lines represent the average weekly volume for the month. They are in thousands of cases of 30 dozen each, and, of course, this chart refers only to Grade A large size eggs. The price refers to the average price in the last week of each month, and, as I pointed out, we have only used three years on here in order to avoid confusion. If you want to take it back still further you can refer to the third set of figures you have in your tables. The table at the bottom of the sheet will take it back into 1963 and 1962.

The substantially increased volume of eggs marketed commencing in early 1964 resulted in a downward trend in producer returns throughout the balance of that year and the first half of 1965. As I pointed out, every year it is quite normal to have the same seasonal variations. So, you get these swings indicated on the graph, starting at the first of the year, and these other swings throughout the year. Although it is going up at this point on the graph it is still lower than compared with the previous years, and you can carry this back to the years before that.

Throughout this period of low prices many small producers went out of business, and many others, large and small, cut back in replacement stocks with

the result that the volume of eggs available, related to demand, dropped sharply by the end of July 1965, and producer prices commenced to rise accordingly. You can follow this again by the red line on the chart. Relatively high producer prices have prevailed since that time.

Again, I emphasize the fact that you will find each year the price tends to move up starting in mid-summer, and they invariably peak somewhere in this area of the late fall months. As I pointed out also, the level of these trends may vary throughout the year according to the supply for the entire year.

Producers of poultry meat and eggs, by force of circumstances, have actually done much to keep down the costs of food. In August the consumer price index for poultry meat and eggs, related to a 1949 base of 100, were 80.8 and 110.6 respectively in contrast to the level of 148.1 for food costs generally. This figure of 148.1 is a correction of the figure of 198.1 in the draft you have before you. I would just point out that that figure of 110.6 was affected by this particularly high cycle we are going through in egg prices in this particular year.

Increasing poultry productivity, that is improved production methods, has resulted in a lower trend in unit production costs, and in lower average prices of poultry products generally.

Consumers have obtained most of the benefit from advancing poultry technology in the form of lower average prices and better quality products marketed on a continuous schedule throughout the year. On the other hand, poultry producers have had to adjust their operations to constantly narrowing profit margins, and to larger scale operations in order to remain competitive in the present trends toward increasing integration.

Many of the smaller poultry enterprises, particularly in egg production, have been discontinued because of the extremely narrow profit margin throughout extensive periods of the past few years. Although current prices to producers are more favourable lower prices will occur again in the foreseeable future.

I might just refer to one other table which I did not make mention of in my brief, namely, the table dealing with eggs which is the top table of those in respect of egg prices. Whereas the one table shows the relationship of volume of Grade A large size eggs marketed in Canada to the price for Grade A large size eggs, the other table to which I now refer, at the top of the page dealing with eggs, related to All Canada weighted average prices Paid to Producers for All Grades of Eggs. Here we relate total marketings to the average for all grades. The details of this table are also set out in the other chart in the package. In view of the fact that the one figure deals with Grade A large size eggs, which is the most popular consumer grade, we have used this grade in relating it back to the consumer level.

Co-Chairman Mr. Basford: Thank you, Mr. Davey. Mr. Macdonald?

Mr. Macdonald (*Rosedale*): My first question is as to the reason of the growth of consumer demand for poultry meats. I suppose this is an aspect of the ancient question, which came first, the chicken or the egg. Was it better production or some consumer factor that created a better market for poultry meats?

Mr. Davey: Probably it was a combination of factors. I think on the poultry side through the application of the improvements in technology, the greater efficiency in production, lowering production costs, increased pounds of meat per man hour of labour, and so on, was the one factor that made it possible to keep poultry prices down, and that combined with the fact that poultry on the counter in the supermarket in comparison with prices for other proteins was a much more favourable purchase, and as a result the consumer migrated towards the poultry products.

Mr. MACDONALD (*Rosedale*): So you would say there was a greater improvement in poultry than a comparable improvement in beef?

Mr. DAVEY: No, I did not say that. I would say, though, that one reason that has kept the poultry price down, in addition to what I have said, is that it has had a habit of being consistently in reasonably long supply.

Mr. MACDONALD (*Rosedale*): Has there been any change in the scale of operations—of an individual operation in the poultry meat field? Have they tried to get larger and larger units?

Mr. DAVEY: That is correct, yes.

Mr. MACDONALD (*Rosedale*): So that there would be fewer units of larger size than say ten years ago?

Mr. DAVEY: Units are getting larger in size, and there are also more units.

Mr. MACDONALD (*Rosedale*): Is the same question of scale involved in egg production?

Mr. DAVEY: Very definitely.

Mr. MACDONALD (*Rosedale*): I noticed your observation that recurrence on the part of Canadian consumers is based on market trends. I take it that relatively they are only slightly influenced by either foreign sales or foreign purchases?

Mr. DAVEY: Periodically they are affected by the influence of outside prices, yes.

Mr. MACDONALD (*Rosedale*): Now, with regard to poultry meats. Is that affected on account of the tariff structure?

Mr. DAVEY: No. In using poultry as an example. If, for example, the United States has a production far in excess of their needs, that may greatly affect our Canadian price. We do not necessarily have to have imports. Just the fact that product could be imported may affect the Canadian price.

Mr. MACDONALD (*Rosedale*): Is egg production subject to foreign competition in the same way?

Mr. DAVEY: It is to a degree.

Mr. MACDONALD (*Rosedale*): It is possible to transport eggs over some distance, is it?

Mr. DAVEY: Although some eggs moving into Canada from nearby points in the United States may move into table use, the bulk of the eggs coming into this country throughout the year are used for processing purposes, frozen and dried product.

Mr. MACDONALD (*Rosedale*): What is the relative market of the two categories?

Mr. DAVEY: Probably about 10 per cent of our eggs will go through the processing channel.

Mr. MACDONALD (*Rosedale*): What is the tariff structure for eggs and meat?

Mr. DAVEY: On eggs, three and a half cents a dozen, and on both broilers and turkeys it is $12\frac{1}{2}$ per cent, with a minimum of five cents and a maximum of ten cents per pound.

Mr. MACDONALD (*Rosedale*): Has there been any pressure over the years on other commodities about dumping, from time to time, that you know of?

Mr. DAVEY: Not in poultry meats.

Mr. MACDONALD (*Rosedale*): I gather from your remarks that egg production is highly elastic with respect to price, that if the price goes up you find more production coming into the field.

Mr. DAVEY: That is invariably what happens.

Mr. MACDONALD (*Rosedale*): Thank you.

Mr. MCCUTCHEON: What is involved in processing an egg from the farm to the wholesaler and to the retailer?

Mr. DAVEY: The normal process in getting an egg from the hens to the consumer is the delivery of the eggs by the producer to a grading station. This may be done by the producer or on a pick-up basis by the grading station operator. He is the man responsible for the grading of the product. He usually packs these eggs loose in 30 dozen cases. I will deal with the more refined procedures afterwards. He packs them by grades. In turn he sells them possibly through a broker or direct to a wholesaler in a distribution centre. At this point they are normally put in one dozen cartons and from there go to the retailer, or they may go into the products trade, where they are made into frozen or dried eggs.

Mr. MCCUTCHEON: You are saying that in fact all that happens to that egg is that it is graded and put in a package.

Mr. DAVEY: There is transportation involved in two or three stages.

Mr. MCCUTCHEON: Yes, but as a mechanical process there is really nothing outstanding involved in processing that egg from the farm to the retail level?

Mr. DAVEY: The washing and grading, that is right.

Mr. MCCUTCHEON: Have you figures for the retail price of Grade A large eggs? We have here the price for August at wholesale, 36.7. Do you have the retail price at that stage?

Mr. DAVEY: We have the retail price as reported by D.B.S., not for August, I am afraid, but for July.

Mr. MCCUTCHEON: That would be fair enough.

Mr. DAVEY: For Grade A large, per dozen, 55.9 cents.

Mr. MCCUTCHEON: In other words, that is a 50 per cent mark-up for transportation, washing and putting them in front of a light?

Mr. DAVEY: Which figures are you comparing that with, sir?

Mr. MCCUTCHEON: Well, 1966, 34.8 and 55.9.

Mr. DAVEY: No, sir. If you use the bottom table, those are the Grade A large.

Mr. MCCUTCHEON: Then 44.

Mr. DAVEY: 44.4 as compared with 55.9. Those two figures are comparable.

Co-Chairman Senator CROLL: What happens to other than Grade A eggs?

Mr. DAVEY: The end grades, B and C go off into the processing, frozen and dried eggs.

Co-Chairman Senator CROLL: You said that Grade B eggs go into the processing?

Mr. DAVEY: What we call undergrades.

Co-Chairman Senator CROLL: Why cannot the consumer for cooking purposes buy Grade B eggs?

Mr. DAVEY: In certain seasons of the year Grade B eggs are quite good eggs. In other seasons the Grade B egg may be de-graded for certain internal factors, which does not make it so good.

Co-Chairman Senator CROLL: I am talking about good eggs. I am talking about Grade B good eggs. Why cannot the consumer buy them for cooking purposes?

Mr. DAVEY: In some areas they are available here. However, keep in mind that the percentage of Grade B eggs is relatively low, and the merchandizing of eggs in most areas has been centred on the various sizes of Grade A large.

Co-Chairman Senator CROLL: Tell me an area where Grade B are available?

Mr. DAVEY: In certain areas of Toronto you will find them.

Co-Chairman Senator CROLL: That would be Mr. Macdonald's riding. What does the D.B.S. say on that. I can never find the figure.

Mr. DAVEY: Actually, of all the eggs that go through egg grading stations, there is only 6 per cent grade B; 1.2 per cent grade C; and 4.3 per cent cracks. You have roughly about 88 per cent eggs going through registered egg grading stations that are of grade A quality.

Mr. MCCUTCHEON: Have you any figures from your department which give any idea of the cost per case of grading eggs, or per dozen?

Mr. DAVEY: Involved in the grading charge, from the producer to the consumer, one might say that the carton costs roughly three cents and the grading cost, dependent on the extent of mechanization, might run anywhere from four cents to eight or nine cents.

Mr. MCCUTCHEON: Per case?

Mr. DAVEY: Per dozen.

Co-chairman Senator CROLL: Per dozen!

Mr. DAVEY: That is the total charges for that operation. This is an undertaking in which we do not undertake to gather specific details.

Mr. MCCUTCHEON: Senator McDonald said he graded eggs for less than that. Would you repeat that please?

Mr. DAVEY: The charges for grading would run anywhere from six cents to 10 or maybe up to 12 cents a dozen. That is, including the carton.

Co-Chairman Mr. BASFORD: That is a charge levied by whom?

Mr. DAVEY: By the man doing the grading.

Mr. CAMERON: Have you a breakdown of the cost?

Mr. DAVEY: We have a rough idea of what he pays for those eggs and what he sells them for. The differential in those two levels—this would get into the marketing area—could run to 12 or 14 cents—the differential between what he pays the producer for Grade A large eggs and what he sells them for to the next man in the merchandizing line.

Mr. MCCUTCHEON: You are talking about a receiving station which does the first process on those eggs received.

Mr. DAVEY: From the grading station to the next one up the line in merchandising.

Mr. CAMERON: What is included in the processing?

Mr. DAVEY: In the grading.

Mr. CAMERON: Yes?

Mr. DAVEY: The actual grading only of the product through his plant—the washing, the grading, the temporary storing while he is gathering the shipment up for movement—packaging, either in 30-dozen or 15-dozen cases and possibly in one-dozen cartons.

Mr. CAMERON: Do not large producers usually handle their own washing? Those I have seen do so.

Mr. DAVEY: There is a tendency for more of that to be done in the grading station, although some of the large producers do the grading, packing, washing and handling of their own product.

Mr. MCCUTCHEON: Now we have got the eggs to the collection centre. It is going from there to the wholesaler and the mark-up in that area—would you just repeat what you said on that, the mark-up in that area?

Mr. DAVEY: About 10 cents to 14 cents in the original phase.

Mr. McCUTCHEON: Then it goes to a commission agency or a city retailer and he in turn distributes them to the retail outlet.

Mr. DAVEY: The 10 cents to 14 cents figure I have given you is the step from the grading station operator to the wholesaler.

Mr. McCUTCHEON: Now we are at the wholesaler.

Co-Chairman Senator CROLL: Mr. McCutcheon, will you fix the figure at the grading station please.

Mr. McCUTCHEON: If you take a figure at the grading station, we start out with a price of 44.4. Then we add six cents to 12 cents to that and it has now reached the city distributor wholesaler.

Mr. DAVEY: Excuse me, what figure did you add to the 12 cents?

Mr. McCUTCHEON: Forty-four point four.

Mr. DAVEY: No. If you are taking your basic price to the producer and adding 10 to 14 cents, it covers the range from the price paid to producers to the price charged to the wholesaler—10 to 14 cents.

Mr. WILLIAMS: I think the confusion here arises from the fact that Mr. Davey quoted two figures, one without packaging and one with packaging. The 10 cents to 14 cents includes all the costs to the wholesaler, including packaging in one-dozen cartons. That is the total charge.

Mr. McCUTCHEON: Arriving at that and using your figure, I presume that the 55.19 figure you gave us is the supermarket price. I come up with a figure of 56.4 that it costs the supermarket. Is the supermarket using eggs as loss leader?

Mr. DAVEY: No. We are giving you average figures and you are taking a specific point in time.

Mr. McCUTCHEON: This is right. I am taking July.

Mr. DAVEY: I am taking what may be classed as the average throughout the year.

Mr. McCUTCHEON: I pass.

Mr. WILLIAMS: Excuse me a moment, gentlemen. We have a table or graph here that will clarify this situation. We will pass it around. It is data that we collected on a sample basis. It does not of necessity conform entirely with the D.B.S. reported figures. That is a much wider sample. It shows three lines—one, the average price paid to producers; two, the average wholesale price; three, the average retail price for grade A large eggs.

There you can see how these things Mr. Davey spoke of occur, depending on the price you get, you can see the differential between the wholesale price and the retail price.

The dotted line A is starting in January of last year, 1965. This is the price to the producer at London, Ontario, for grade A large. It shows that the price paid to producers went up fairly continuously until the end of the year.

Co-Chairman Senator CROLL: What does the price indicate by that graph—is it 74 cents?

Mr. WILLIAMS: No, sir, that price shows that, to start with January of last year, the price to producers was just a little better than 20 cents a dozen. The highest point, which was in November of last year, was 53½ cents. That is the price to producers.

The next dotted line, above that, represents the next level of trading, namely, the wholesale level. This is the weighted average, wholesale to retail price, for cartoned grade A large eggs in Toronto. Once again, it is one specific market. That is why it varies or can vary from the D.B.S. figures.

The third line, line C, is the average consumer price for cartoned grade A large-sized eggs, Toronto, 1965. The solid lines are exactly the same thing, except that the year is 1966 to date.

You will notice there that there is considerable variation depending upon the time of the year and the price differential at the three levels reported. I must emphasize that this represents only the difference at those specific markets, namely London and Toronto, and for Grade A large eggs.

Mr. McCutcheon: You have nothing on the markup taken by the supermarket.

Mr. Williams: This shows, sir, the difference between the wholesale price and the consumer price, or the retail price. The lines B and C, in each case, show that difference.

You will note that in January 1965 it amounted to $6\frac{1}{2}$ cents. In December it amounted to about $8\frac{1}{2}$ or $8\frac{3}{4}$. It is a little difficult to read. It is 9 cents, I am informed.

Mr. McCutcheon: Nine cents.

Mr. Williams: Yes. In the current year, I believe, looking at the table, the July margin is narrowest. At the present time it has widened out.

Co-Chairman Senator Croll: What was it in July?

Mr. Williams: In July the price difference, that is to say the difference between the wholesale price, Toronto, for Grade A large and the retail price, Toronto, for Grade A large, was $4\frac{1}{2}$ cents.

Co-Chairman Senator Croll: And what is it now?

Mr. Williams: And now for the month of September it is $7\frac{1}{2}$ cents.

Mr. Allmand: Mr. Davey, do you have any figures which would cover the last 10 years or so to show what percentage of the egg production would go for table use and what percentage would go for process use? I ask this question because it seems to me that over the last 10 years there has been a great increase in processed desserts which use eggs; for example, Betty Crocker and Sara Lee, and puddings and all this sort of thing. Usually, if you made these desserts at home you would use eggs.

I am wondering if there has been a great increase in that respect. Are these companies buying eggs. If so, would this have any effect on the price?

Mr. Davey: Over a number of years, yes. There has been an increase in the volume of eggs that is going into the processed channels. Now, as to whether that is an acutal increase in percentage, I am not sure, because the amount going into the table channel has also been going up in actual volume.

Mr. Allmand: Do you know if the price of eggs has been affected by the fact that these large companies are buying eggs to produce their cake mixes and so on?

Mr. Davey: Let us put it the other way round: The price of eggs affects the volume that goes into the processing channel, because, when eggs get up into the price to producers like we have in 1966, then the people that are buying them for processing uses stop buying them because they are getting too expensive.

Mr. Allmand: It seems to me that, if the price went up, the consumer might cut down on his consumption, but that the big food producers would still buy them for producing. This is just the feeling that I have. If I were the consumer and prices went up, I would stop buying eggs for use on the table, but the big producer of cake mixes and so forth might still continue to buy them. Do you say that that is not so?

Mr. DAVEY: There is still a certain amount of product being produced, but with respect to the processing of egg products to date this year, the frozen product is running at about two-thirds to 75 per cent of what it was last year, and the volume of frozen product in storage this year is only half of what it was last year. This is in view of the fact that the price of the raw product is so much higher at this particular time.

Mr. WILLIAMS: I think part of the answer, sir, is that there is a fair storage stock of frozen egg melange in this country at almost any time, and, as prices increase, the storage stock tends to be reduced to be replenished when prices drop. I am talking of prices of eggs to the producers or prices of eggs to the breaker.

Mr. DAVEY: Not only that, but it is at that time that the import for eggs for breaking goes up, if they can buy them cheaper somewhere else and bring them in.

Mr. ALLMAND: On another subject, do the poultry producers, or producers of chickens and turkeys, have an association, or do they advertise in any way which would have helped this great increase in the consumption of chickens and turkeys?

Mr. DAVEY: The Poultry Products Institute of Canada, which is an organization financed by industry, is very active. Its only responsibility in life is to promote poultry products.

Mr. ALLMAND: How long have they been in operation?

Mr. DAVEY: About 12 or 13 years.

Mr. ALLMAND: This seems to correspond to the figures you have for the great increase in poultry products.

Mr. DAVEY: They have helped.

Co-Chairman Mr. BASFORD: Have you completed, Mr. Allmand?

Mr. ALLMAND: Yes.

Co-Chairman Mr. BASFORD: Senator O'Leary.

Senator O'LEARY (*Antigonish-Guysborough*): Do you have, Mr. Davey, a United States figure, at any one of these figures, for any one of the producers?

Mr. DAVEY: No, we do not.

Mr. WILLIAMS: We can provide it. We can get it, but we have not got it here.

Senator O'LEARY (*Antigonish-Guysborough*): It is interesting to me to note that the price spread is about 20 cents to the dozen to the consumer.

Co-Chairman Mr. BASFORD: Could you supply Senator O'Leary with that information?

Mr. WILLIAMS: Not with price spreads, but we can give some of the basic market trends.

Senator MCDONALD: A moment ago you were talking about an increase in poultry products generally, especially in meat and eggs. Is part of this not because of the fact that fresh poultry is available today 12 months a year, whereas this was not true 10 or 15 years ago? Is it not because of the change in production of poultry? I think it is related to this fact more than to anything else. It seems to me that 10 or 15 years ago you could not buy fresh poultry during many seasons, but that today it is available at all times.

Mr. DAVEY: That is correct.

Mr. RYAN: Somewhat along the same line—

Co-Chairman Mr. BASFORD: Mr. Ryan, would you use the microphone, please?

Mr. RYAN: Seasonal laying used to be quite a factor in the production of eggs in Canada. Has this been ironed out by programming processes so that it is no longer a factor?

Mr. DAVEY: If we trace out the volume of eggs marketed by months and we relate it, say, to the quarters of the year, it will probably vary from a high of 27 or 28 per cent in any one quarter to a low of about 22 or 23 per cent. It is fairly uniform throughout the year.

Mr. RYAN: Spring laying would still be heavier. I mean that an individual hen would produce more in a certain season?

Mr. DAVEY: Sufficient to give us the problem we have here with seasonal differences.

Mr. WILLIAMS: For the record, I could provide data, for example, for 1965: for the first quarter, 25.6 per cent of all eggs of all grades were marketed; for the second quarter, 26.2; for the third quarter, 24.2, and for the fourth quarter, 24.0.

Mr. RYAN: Would off-the-ground feeding have any bearing in respect of a hen's seasonal laying?

Mr. DAVEY: Are you talking about laying cages?

Mr. RYAN: Yes.

Mr. DAVEY: There may be some difference, but you still get exponents of both methods in the large units.

Senator MCDONALD: How would this product compare with 10 years ago in 1955?

Mr. WILLIAMS: I am afraid we do not have the data here, sir, but it has shown an improvement within recent years. I am not prepared to say it is 10 years ago, but the Agricultural Stabilization Board did investigate this matter thoroughly some time ago and, very definitely, there has been a marked improvement in the seasonal nature of egg production. Whether it was 10 years ago, I am not prepared to say, but over the years there has been a very, very marked improvement.

Senator MCDONALD: Is this not largely a result of the method of production of eggs rather than coming from hundreds of farmers the eggs come from fewer but larger plants on a year-round basis.

Mr. DAVEY: It also reflects the placement pattern in regard to the chicks. That is, whereas March, April and May are still the predominant months for the placement of chicks, there is an increasing percentage of that fanning out into the other months of the year.

Mr. SALTSMAN: On the graph you have just given us showing the spread—I would appreciate it if you would look at this graph and see if I am reading it correctly—I am rather interested in the widening of the spread on the retail mark-up this graph seems to indicate. Just taking two months as an example, taking the month of January, in the month of January of last year I get a spread of 6½ cents, and in the month of January of this year I get a spread of 8½ cents. If we go to this last month for which we have figures, August, in that same period last year there was a spread of 5 cents towards the end—it varied from about 6 to 5 cents; it varied considerably, narrowing towards the end of the month. And in the same period this year there seems to be a spread of 7½ cents. In other words, the mark-up seems to be higher this year than last year at the retail level—in those two months, anyway.

Mr. DAVEY: We do not have the answer as to the "why" for that.

Mr. SALTSMAN: But am I interpreting your graph correctly?

Mr. WILLIAMS: There are two points here which must be understood. While there will be a witness appear before you later who will be able to answer the

question very much better than I can, one is in part the answer Mr. Bennett gave, the question of market reaction. You will notice that in general when prices start to rise the margin remains narrow. In these groups, in every case where there is a sharp upward swing in the price the margin is narrow; there is a tendency to hold the prices. Once the decision appears there should be a change, the change does take place.

The other point I wish to mention—and, once again, as I said, there will be an expert witness before you who can verify this—is that I believe in general the mark-up, at least with regard to certain merchandise, is a percentage. Once you are dealing with percentages, the higher the level of the price, the greater the spread.

Mr. DAVEY: This particular chart has only one figure for each month. It is not plotted by days, but the average for the month. That is why you get the very straight lines.

Mr. WILLIAMS: A daily or weekly plotting goes very much in a zigzag fashion.

Senator MCGRAND: The consumption of turkey and chicken has increased five times since 1955. Is this reflected in a drop in cereals and vegetables, such as potatoes, as mentioned by Mr. Williams; or is it added to the food consumption per capita?

Mr. DAVEY: To correct one interpretation, the per capita consumption has not necessarily gone up, but the volume processed has. The population has also gone up.

Senator MCGRAND: So there is a drop in the consumption of cereals and of vegetables such as potatoes, a corresponding drop?

Mr. WILLIAMS: I can answer that in part, sir, and I think it is very difficult because I think we have to talk about calories and dry weights which I have here. For the three years 1959-1961, as compared to 1964, the per capita consumption of cereals, all cereals, retail weight, dropped by 7.4 pounds. In the same period the consumption of turkeys rose two pounds, and the consumption of fowl and chicken rose 3.4 pounds. So I would say, obviously on a dry matter basis the total consumption, just comparing those two—and there are many other factors, because I mentioned beef earlier and fruits and vegetables—but mentioning just those two, there has been a decrease in the total intake of dry matter in respect of those two, in comparing those two. I think, if you would refer, sir, to table No. 8 accompanying the document I gave, you can see where in actual poundage these changes have taken place over the years in question.

Co-Chairman Senator CROLL: Just a lesson in arithmetic for a minute. Let me see if we can follow you. The table indicates that in July the price was 44.4. Right? I have the table in front of me. I am reading from the table.

Mr. DAVEY: Yes.

Co-Chairman Senator CROLL: You suggested the processing, the washing, grading ran between 10 and 14 cents. I will give you 12 cents, to make it an average. That is not unfair, is it? That makes it 56 cents. Eggs are selling at 75 to 80 cents in the stores. Can you tell me and give me any reason why there should be an increased price of almost 31 cents when the chicken does all the work? And I am serious. I want to know if those figures are correct. If they are not, break them down, will you?

Mr. WILLIAMS: The problem we always have with using averages and applying them to a specific question is that the price you used was the producer price for the month of July of this year. The only figure we have available at the present moment for July of this year, at the retail level, shows that the average across Canada for fresh grade A large eggs was 55.9 cents. This was the average price to the consumer as represented by D.B.S. for the month of

July. That is the figure that might be compared to this. However, we have to remember that the 44.4 represents producers all across Canada as well. A more comparable figure is the one shown in the table here, because we are using the same markets at the same time.

Co-Chairman Senator CROLL: All right. What was July, according to the table—July, 1966?

Mr. WILLIAMS: According to the graph or the table?

Senator CROLL: The graph.

Mr. DAVEY: The price to the producer was 47.5, and the price to the consumer was 66 cents.

Mr. WILLIAMS: If you will look at the graph and look across the bottom, you come to July, and read straight up that line, the first solid line is 47.6 cents. That was the price received for the month by producers on the London market. If you read directly above that you get the wholesale price for the same time, and it was 61.5. If you read directly above that again you get the retail price, once again at the same market, for grade A large eggs, and it was 66 cents. These are monthly averages.

Mr. SALTSMAN: Are those the figures for 1965?

Mr. WILLIAMS: No, it is, sir, for July, 1966.

Mr. SALTSMAN: Would you check the graph again? The figure I come up with is in 1965, taking the month of July, approximately 47.5 cents at the producer level.

Mr. WILLIAMS: No, sir. That is 1966. The solid line is 1966.

Mr. SALTSMAN: I am talking about 1965.

Mr. WILLIAMS: Yes, 1965 is the dotted line, and the producer price is—

Mr. SALTSMAN: I am taking the point where it cuts off here at the end of this year. Is that July?

Mr. WILLIAMS: That is September.

Mr. SALTSMAN: Well, it is the September figure that I am using.

Mr. WILLIAMS: September, 1965?

Mr. SALTSMAN: Yes.

Mr. WILLIAMS: 47 cents.

Mr. SALTSMAN: 47 cents for the producer, and 62.5 cents for the consumer?

Mr. WILLIAMS: That is correct.

Mr. SALTSMAN: That is a spread of 15.5 cents.

Mr. WILLIAMS: That is correct.

Mr. SALTSMAN: And in the same period this year it is 52.5 cents for the producer and 74 cents for the consumer?

Mr. WILLIAMS: Yes.

Mr. SALTSMAN: With a spread of 20.5 cents—almost a 25 per cent increase in spread.

Mr. WILLIAMS: We have here, if you are interested in them, the egg prices at the three locations as at September 27. These are the latest published figures. They show that the price to producers for Grade A large eggs, but delivered as ungraded eggs, as Mr. Davey explained earlier, ranged from 54 cents to 58 cents. There is always a price range here. The price to retailers, or the wholesale price—the weighted average for that day was 66.2 cents, and the weighted average to consumers for Grade A large eggs in cartons was 73 cents to 75 cents. So, the three figures again are in the range of 54 cents to 58 cents, a weighted average of 66.2 cents, and a range once again of 73 cents to 75 cents.

Mr. SALTSMAN: That narrows the range somewhat over the figures that I get from the graph. Admittedly a graph is not as accurate as a table of figures.

Mr. WILLIAMS: I think it is a question of point in time as well, sir. I endeavoured to point out earlier that this is not a constant by any means.

Mr. SALTSMAN: Unless we get some meaningful average how are we going to form any kind of an evaluation. If we have to deal with every day, how can we do that? You can take the statistics for one day to prove something to the contrary on the next day. Is there anything meaningful that we can get from these figures? From the graph I can get some indication that the price spread has increased very substantially this year.

Mr. WILLIAMS: We could give, sir, a simple average. We cannot give the weighted average because we do not know the volume traded at the wholesale and retail level daily. We can give you a simple average of these three lines for—how long?

Mr. DAVEY: For any period of time you want.

Mr. WILLIAMS: We can give you it certainly for the entire year 1965, and we can give you it for this year up to date, but that would be a simple average.

Mr. MACDONALD (*Rosedale*): Actually, the price spread was greater at the end of October last year than it is currently.

Mr. WILLIAMS: I believe October last year is one of the widest places, and I think March or April of this year is another wide portion.

Co-Chairman Mr. BASFORD: I think these three lines generally follow the same trend. In fact, in every month they follow the same trend except in July, 1965, when the wholesale and retail prices declined against a general uptrend in the producer prices. What special factors were operating at that time to cause that reduction in consumer and wholesale prices?

Mr. DAVEY: Here again a day to day chart might bring this into proper perspective. This is just one point in the month.

Mr. WILLIAMS: I am afraid we do not have an answer for that.

Mr. DAVEY: We do not have an answer other than that.

Co-Chairman Mr. BASFORD: Could you look into that to see whether that is just by coincidence—whether it was a day to day occurrence—or whether there was a trend there, because if there was a trend the factors that caused it might be rather interesting.

Mr. WILLIAMS: What could have happened is that this line could easily have come down, and this line could easily have come down in between, and both could have been going up at that point. However, we will plot that and report on it, sir.

Senator MCDONALD: Mr. Williams said he could give a simple average for the years 1965 and 1966 to date. I wonder if we could have that average.

Mr. WILLIAMS: We cannot give it here. We would have to have it prepared.

Mr. RYAN: The spread seems to be somewhere between 15 cents and 20 cents over this period of a year.

Co-Chairman Mr. BASFORD: We are going to have a table of averages prepared.

Mr. RYAN: Yes, but the average seems to be somewhere between 15 cents and 20 cents. Would that be so?

Mr. DAVEY: Yes, that is right.

Mr. SALTSMAN: Has an explanation been offered for the fact that to the end of September, 1966 the graph lines are almost perfectly horizontal. There does not seem to be any rise or fall in that last element of the lines. They are absolutely horizontal.

Co-Chairman Senator CROLL: From August to September?

Mr. SALTSMAN: Yes. There has been no tendency to rise or decline, which is contrary to almost any other period shown on that graph. In this last month the relationship between the wholesale price and the retail price seems to have remained constant.

Mr. DAVEY: Actually, it is only in August and September, because there are two lines between each. It just happens that the average for August and the average for September came out at about the same.

Mr. SALTSMAN: Is this not a bit unusual having regard to the way the graph jumps all over the place?

Mr. DAVEY: I think what you are going to find is that our estimate of this line here, which is also a Grade A but for all of Canada—this line is going to peak in here and start heading down. You may, in those two months have caught the front end of the swing and the back end of the swing, and it has gone up and down again in between.

Mr. RYAN: But all three lines are remarkably parallel. That is Mr. Saltsman's point.

Mr. SALTSMAN: Yes. In other words, were there agreements taking place within the industry?

Mr. WILLIAMS: I cannot answer your specific question at all. I do not know whether these represent agreements, but what we are prepared to do is plot on a shorter basis than that to see whether there have been fluctuations in between, or whether it has remained parallel.

Mr. SALTSMAN: I would appreciate it if you would do that.

Mr. MCCUTCHEON: Mr. Williams, further to this, we are concerned at the moment with just pricing. I wonder when you are preparing those figures if you could also include some figures from your department on the cost of production so that this would be meaningful all along the line. What this committee, I think, is trying to find out is this: Is there an undue spread between the producer and the consumer? It may be that those figures will point out that the producers are making too much. If you provide us with that information along with the other we may find that out.

Mr. WILLIAMS: I am afraid not, because we do not have at this present moment cost of production studies under way in the poultry industry. I think all we can do is report on the costs of services, and what happened to them during that time. Cost of production studies are probably one of the most difficult fields we have to look into because there are such terrific variations between individuals.

Mr. MCCUTCHEON: In your opinion, with the figures we have at the moment—I suppose I should not ask you for an opinion—do these mark-ups appear to be justified?

Mr. WILLIAMS: I would not be prepared to express an opinion at all as to whether the mark-ups are justified.

Co-Chairman Mr. BASFORD: It has been my observation that some of the chain stores are opening egg plants in some regions. What effect, if any, has this had on regional markets?

Mr. DAVEY: I do not think that the general stores as such open their own egg plants. They probably extend their type of contract operation with producers. In today's marketing of eggs I would say that the bulk of eggs that go into the carton trade, the table trade, are bought on some form of contractual program for a year's delivery; that is, each merchandiser today is likely at least for the bulk of his through put, to have contracts with producers for their

output for the year. He needs that to have some assurance as to what his supplies are going to be and because of the size of units, and so on, he has to know that he can plan his production.

Co-Chairman Mr. BASFORD: How are the prices determined under those contracts?

Mr. DAVEY: There are various forms of contract, but basically the prices to producers relate to the moving price of the wholesale to retail level.

Co-Chairman Mr. BASFORD: Do you mean that the price is determined by some price outside of the contract?

Mr. DAVEY: Yes. One of the responsibilities of our department, and using the poultry division as an example, is that we report daily the wholesale to retail price on the Toronto and Montreal markets. We also report in our poultry market report once a week the prices right across Canada.

Mr. WILLIAMS: In this type of contract, he agrees that he will buy, for example, at one to two cents above or below the quoted Toronto price.

Mr. DAVEY: The wholesale to retail price is based on those sold in cartons.

Co-Chairman Mr. BASFORD: Is it true to say that most of the table eggs which are sold under these contracts, the price is determined on the minority of eggs?

Mr. DAVEY: No, on the majority of the eggs.

Mr. MACDONALD (*Rosedale*): When you were asked whether retailers go into the producing, I think your answer was no. Is this true so far as wholesalers are concerned?

Mr. DAVEY: It is true to the extent that a wholesaler is himself a producer. We have a number of units throughout the country where a man as a producer has become large enough to do his own grading, packing and merchandising direct to a retail outlet.

Mr. MACDONALD (*Rosedale*): But have any wholesalers recently gone into the producing end, that is, companies, not individuals?

Mr. DAVEY: There may be a certain number of them, but not to any large degree.

Mr. MACDONALD (*Rosedale*): I am thinking of my own province of Saskatchewan, where the creameries are producing their own eggs.

Mr. DAVEY: That is what I said, to a certain extent, not to any large degree.

Co-Chairman Senator CROLL: Take a look at that graph headed "Price per thousand for Canadian grade eggs," at various levels. Will you interpret for the record the dotted lines, starting at the bottom?

Mr. DAVEY: The dotted lines on this chart represent for 1965 the entire year. The bottom line is the average producer price for Grade A large size eggs for London, Ontario.

Co-Chairman Senator CROLL: What does it say?

Mr. DAVEY: It indicates that his price started in January at about $20\frac{1}{2}$ and ended up in December at about 47. Then the next line above that is the weighted average wholesale to retail price for cartons for Grade A large size eggs at Toronto; and on the third line it started at 35 and ended up at 59.

Co-Chairman Senator CROLL: In December?

Mr. DAVEY: In December. The third line shows the average consumer price for cartons of Grade A large size eggs in Toronto, and that started at $41\frac{1}{2}$ and ended up in December at 68.

Mr. RYAN: Why London and Toronto?

Mr. DAVEY: London is the supply area, and a large amount go into the Toronto area. It happens to be a quotation point which we use, and Toronto is a large consuming market.

Mr. RYAN: So they tie right together?

Mr. DAVEY: They tie together.

Mr. SALTSMAN: Historically, have prices fluctuated let us say in the 50's and early 60's the way they have on this graph in the last couple of years?

Mr. DAVEY: Yes, these are normal seasonal trends and they will fluctuate along that range.

Mr. SALTSMAN: In other words, the range will be about the same in previous years—there is a variation between a low in January and a high in October?

Mr. DAVEY: The extent of these variations might differ from year to year, but the general seasonal trend is the same.

Mr. WILLIAMS: I think Mr. Davey covered that point in part in his statement at the bottom of page two, where he indicated that the 1963 prices were high and there was a considerable increase in production followed by a resulting drop off in egg prices that carried into 1964. However, we have always had cyclical egg prices, and there have been periods of high prices which encouraged people to come into the business, followed by high production, with resulting low prices, driving people out of the business, and the whole thing just repeats.

Mr. SALTSMAN: Would that be true on a month to month basis? I was assuming for comparison a month to month basis? Is that true over the years?

Mr. WILLIAMS: That is right.

Mr. SALTSMAN: But there is a tremendous variation from low to high on this graph.

Mr. WILLIAMS: The phenomenon I referred to has about a two years cycle.

Mr. SALTSMAN: I was wondering whether each year would look very much the way this graph looks according to previous years.

Mr. DAVEY: The general trend is roughly the same.

Mr. SALTSMAN: If we had the graph for 1955, for instance,—

Mr. DAVEY: It would be roughly the same. We could indicate judging by the chicks placed. It all depends on that. Judging by the chicks placed by periods through the year, we might hazard a guess that 1967 is going to end up somewhere between the low prices of 1965 and the high prices of 1966.

Co-Chairman Mr. BASFORD: Any further questions?

Mr. RYAN: If you went back 10 or 15 years ago would you find the same spread roughly, in an attempt to get 20 cents at the retail market level above what is paid to farmers and producers?

Mr. DAVEY: We can get these figures. I am not sure if we have them here, or how far back they go, but we can give them in point of time. We could prepare them in graph form.

Mr. RYAN: I would like to know the background for 1950.

Mr. DAVEY: Keep in mind, though, that there have been changes in merchandising techniques, that is, you may not have the same avenues of movement of the product in 1950 as you have today. We can take prices at grading stations back to 1950, I think.

Mr. WILLIAMS: Basically we can go back to 1951 and provide prices at the three levels. Whether those prices will be comparable at the moment, I cannot say, but we have collected essentially figures on the same basis over the past 15 years.

Co-Chairman Mr. BASFORD: Would you like to have that, Mr. Ryan?

Mr. RYAN: I would, yes, Mr. Chairman.

Co-Chairman Mr. BASFORD: There being no further questions, the committee is very grateful to Mr. Williams and Mr. Davey for appearing this morning and giving us the information. Thank you very much.

The committee adjourned.

APPENDIX 2

TABLE I

INDEX NUMBERS OF THE PHYSICAL VOLUME OF AGRICULTURAL PRODUCTION (1949=100), CANADA, 1959–65

	All commodities	Cattle	Hogs	All Livestock	All poultry	Eggs	Dairy products	Field crops
1959	129.8	117.4	133.2	126.8	212.0	157.1	120.1	133.0
1960	138.7	132.1	103.0	122.1	203.5	154.0	122.0	146.0
Avg. 1959–60	134.2	124.8	118.1	124.4	207.8	155.6	121.0	139.5
1961	122.0	143.2	111.6	132.2	255.8	147.6	126.0	105.5
1962	150.9	137.1	109.9	129.0	252.3	149.5	117.3	154.9
1963	162.9	139.1	114.7	131.0	266.4	143.9	118.0	176.5
1964	151.5	150.9	119.5	139.1	293.2	150.9	118.8	155.3
1965	166.3	161.1	108.8	139.0	320.0	149.4	118.9	174.4
Avg. 1964–65	158.9	156.0	114.2	139.0	306.6	150.2	118.8	164.8
				– per cent –				
Annual growth rates								
1960–65	3.7	4.1	1.1	2.6	9.5	−0.6	−0.5	3.6
1959–60—1964–65	3.4	4.5	−0.6	2.2	8.1	−0.7	−0.4	3.4

SOURCES: (1) DBS, *Index of Farm Production*, Cat. No. 21–203—for total of all commodities; breakdown by commodity grouping is unpublished.

(2) DBS, *November Estimate of Production of Principal Field Crops*, Cat. No. 22–002. (for field crop grouping).

TABLE II

FARM OPERATING EXPENSES AND DEPRECIATION ALLOWANCES, CANADA, 1960–65

	Total Farm Operating Expenses and Depreciation	Number of Farm Operators	Average per Operator 1960=100
	'000 $	'000	
1960	2,038,947	444	100.0
1961	2,072,370	436	103.5
1962	2,228,152	413	117.5
1963	2,377,044	404	128.1
1964	2,485,311	397	136.3
1965	2,641,140	362	158.9
		— per cent —	
Annual growth rate:			
1960–65	+5.3	−4.0	+9.7

SOURCES: (1) DBS, *Farm Net Income*, Cat. No. 21–202.

(2) DBS, *The Labour Force*, Cat. No. 71–001. The figure given here for farm operators is the total of "Own account workers" and "Employers" in the agricultural sector.

TABLE III

INDEX NUMBERS OF COMMODITIES AND SERVICES USED BY FARMERS (1935–39=100), CANADA, 1960–66

	Composite Index, excluding living costs	Tax and interest rates	Farm wage rates	Equip. and materials	Farm machinery	Building materials	Gasoline, oil, grease	Feed	Seed	Fertilizer	Hardware
1949	204.1	138.7	373.3	180.3	158.3	237.1	139.3	209.5	212.2	141.3	164.8
1960	276.7	214.5	555.3	222.7	254.2	327.7	155.0	204.0	193.2	194.8	239.4
1961	282.2	220.6	566.0	226.7	261.4	324.3	156.5	210.9	195.8	194.6	242.0
1962	290.7	228.0	576.1	234.9	286.1	326.3	157.8	232.2	218.8	193.8	247.2
1963	298.6	239.2	600.6	237.4	272.9	334.2	157.5	232.0	205.7	201.6	249.1
1964	308.6	247.4	627.5	243.5	279.6	357.8	159.9	226.1	205.2	203.8	254.4
1965	321.8	259.1	677.0	247.4	284.9	371.4	159.7	227.3	209.9	212.9	266.1
April:											
1965	324.2	259.1	688.9	248.1	284.9	371.6	159.8	226.7	209.7	223.6	266.3
1966	346.8	n.a.	798.5	254.9	293.8	383.3	162.9	237.0	219.2	221.6	277.6
						— per cent —					
Annual growth rate:											
1960–65	3.1	3.9	4.1	2.2	2.3	2.5	0.6	2.2	1.7	1.8	2.2

SOURCE: DBS, Price Index Numbers of Commodities and Services Used by Farmers, Cat. No. 62–004.

TABLE IV

INDEX NUMBERS OF FARM CASH RECEIPTS AND FARM PRICES, 1949–1965

Years	Index of Farm Cash Receipts	Index of Farm Prices of Agricultural Products
	1949=100	1949=100
1949	100.0	100.0
1950	88.5	102.1
1951	113.7	116.2
1952	116.7	107.4
1953	113.0	98.0
1954	95.6	92.7
1955	93.4	91.1
1956	105.5	91.9
1957	104.9	91.7
1958	114.9	96.1
1959	114.9	96.9
1960	114.0	97.9
1961	120.6	102.3
1962	129.4	106.5
1963	133.4	105.1
1964	145.5	104.1
1965	157.5	106.6

SOURCE: DBS.

TABLE V

TRENDS IN AGRICULTURAL PRODUCTIVITY, CANADA, 1959–64 (1949=100)

	Canada
1959	136.7
1960	147.4
Average 1959–60	142.0
1961	128.6
1962	156.9
1963	168.3
1964	155.7
Average 1963–64	162.0
	— per cent —
Annual growth rates:	
1946–64*	2.4
1959–60—1963–64	2.7

SOURCE: Economics Branch, CDA.

* On the basis of a straight-line trend fitted to the natural logarithms of the index numbers by simple least-squares regression.

TABLE VI

NUMBER OF PERSONS SUPPORTED BY THE FOOD AND FIBRE PRODUCTION OF ONE FARM WORKER

	Canada
1949	16
1959	27
1960	28
1961	31
1962	31
1963	32
1964	38
1965 preliminary	39
	— per cent —
Annual growth rates:	
1960–65	6.8
1959–60—1964–65	7.0

SOURCES: (1) Economics Branch, CDA.

TABLE VII

INDEX NUMBERS OF FARM PRICES OF AGRICULTURAL PRODUCTS (1935–39=100), CANADA 1960–65

	All Commodities	Livestock Products	Grains	Dairy Products	Eggs and Poultry
1949	255.4	337.4	222.4	260.2	210.6
1960	250.0	328.3	191.6	288.2	154.9
1961	261.2	344.5	220.7	289.4	157.6
1962	272.0	373.4	231.2	291.1	154.2
1963	268.4	359.2	225.2	294.1	167.5
1964	265.8	341.1	226.1	304.0	150.5
1965	272.2	371.2	n.a.	314.5	155.6
Annual growth rates:					
1960–65	+1.7	+2.5	—	+1.8	+0.1
1960–64			+4.3		

SOURCE: DBS, *Index Numbers of Farm Prices of Agricultural Products*, Cat. No. 62–003. The grains index for 1965 is incomplete at this date (Sept. 28, 1966), pending final payments on the western grain pools.

TABLE VIII

PER CAPITA FOOD CONSUMPTION, CANADA 1949 TO 1949–51, 1959–61, 1964

		1949–51	1959–61	1964	% aver. 1965 / 1949–51
Disposable income (1949 dollars) (per capita)		901	1,068	1,196	
		— Pounds per capita per year —			
Cereals	retail weight	171.7	153.1	145.7	84.9
Wheat flour	"	153.1	135.6	127.1	83.0
Potatoes	fresh equivalent	164.3	156.0	155.7	94.7
Sugars and syrups	retail weight	109.5	108.9	109.7	100.1
Sugar	"	99.5	97.8	98.3	98.7
Pulses and nuts	"	11.4	10.3	10.4	91.2
Oils and fats (excl. butter)	"	27.5	31.8	31.9	116.0
Fruits	fresh equivalent	153.0	186.6	179.0	116.9
Fresh	"	90.2	97.0	102.0	113.1
Processed	"	62.8	89.6	77.0	122.6
Vegetables	"	135.3	159.3	160.1	118.3
Fresh	"	71.8	83.0	80.5	112.1
Processed	"	63.5	76.3	79.6	125.4
Dairy Products	retail weight	451.6	411.6	388.8	86.1
Fluid milk and cream	"	389.1	344.7	321.6	82.7
Butter	"	21.9	17.2	19.0	86.8
Cheese	"	6.1	8.4	10.2	167.2
Concen. whole milk prod.	"	18.9	19.7	18.3	96.8
Concen. milk by-prod.	"	5.3	9.4	11.5	216.9
Ice cream	"	10.3	12.2	8.2	79.6
Dairy Products	milk equivalent	1,028.0	895.8	913.8	88.9
Meat	carcass weight	129.8	141.3	149.1	114.9
Beef	"	52.3	68.4	78.5	150.1
Veal	"	8.9	6.9	6.9	77.5
Pork	"	56.2	53.1	52.0	92.5
Lamb and mutton	"	2.3	3.1	3.4	147.8
Other	"	10.1	9.8	8.3	82.2
Poultry	eviscerated weight	16.6	29.7	34.5	207.8
Fowl and chicken	"	13.7	21.9	25.3	184.7
Turkey	"	2.5	7.2	9.2	368.0
Eggs	retail weight	29.5	34.4	32.2	109.2
Total food	"	1,400.2	1,423.0	1,423.3	101.6

SOURCE: D.B.S.

TABLE IX

ESTIMATES OF THE FARM-RETAIL MARKETING BILL FOR DOMESTIC PRODUCED FOODS, CANADA, 1949–1964

Year	Retail Value	Farm Value of Raw Food Materials	Farm-Retail Marketing Bill	Farm Value as a Per Cent of Retail Value
	— million dollars —			per cent
1949	2,111	1,234	877	58
1950	2,247	1,292	955	57
1951	2,643	1,544	1,099	58
1952	2,759	1,554	1,205	56
1953	2,925	1,487	1,438	51
1954	2,930	1,481	1,449	51
1955	3,101	1,493	1,608	48
1956	3,313	1,562	1,751	47
1957	3,607	1,617	1,990	45
1958	3,880	1,735	2,145	45
1959	4,081	1,786	2,295	44
1960	4,300	1,760	2,540	41
1961	4,332	1,782	2,550	41
1962	4,573	1,924	2,649	42
1963	4,669	1,988	2,681	43
1964	5,029	2,043	2,986	41

SOURCE: Based on Dominion Bureau of Statistics data.

APPENDIX 3

TURKEYS — DINDONS

Total volume processed by months in Canada (eviscerated weight) and monthly average live weight prices per pound paid to producers London, Ontario.

Volume total de dindons abattus par mois au Canada (équivalent en poids éviscéré) et les prix moyens mensuels payés par livre aux producteurs au marché de London, Ontario.

('000 lb.)

	1962		1963		1964		1965		1966	
	Volume	Price Prix	Volume	Price Prix	Volume	Price Prix	Volume	Price Prix	Volume	Price Prix
Broilers—12 pounds and under, live weight *Jeunes dindons*—12 livres et moins										
Jan.	1,324	21.5¢	2,539	22.5¢	2,578	23.2¢	3,620	22.0¢	4,085	24.0¢
Feb.	1,839	21.8	2,208	22.5	3,056	23.4	3,360	22.0	4,894	24.6
March	2,039	23.2	1,849	23.0	4,131	23.8	3,625	22.0	6,302	24.0
April	2,495	24.8	2,489	24.5	2,292	23.8	4,164	22.2	4,793	23.8
May	1,746	23.4	2,035	24.5	2,729	23.9	3,765	23.0	4,824	22.6
June	1,659	23.7	1,988	25.1	2,497	24.2	3,996	23.0	5,327	22.3
July	1,651	25.1	1,941	25.0	2,973	24.2	4,160	23.0	5,490	22.1
August	1,905	26.1	2,716	24.6	2,876	24.0	3,876	23.0	5,566	22.0
Sept.	1,503	26.8	2,382	25.2	3,806	24.0	4,265	23.5		23.0
Oct.	2,562	27.0	3,769	25.8	4,557	23.6	4,903	23.9		
Nov.	2,681	27.0	2,926	25.6	4,723	23.1	4,865	24.8		
Dec.	3,556	25.0	3,616	25.8	5,389	22.8	4,616	24.9		
Total	24,960		30,458		41,607		49,215			
Year		24.6		24.5		23.7		23.1		
Medium Weight—12 pounds and up to 20 pounds live weight *Jeunes dindons*—plus de 12 et moins de 20 livres										
Jan.	616	24.5	682	24.1	493	28.0	433	24.0	347	28.8
Feb.	518	—	399	23.6	309	26.0	476	24.0	597	27.1
March	958	24.3	395	23.5	402	25.5	469	24.0	613	24.6
April	1,324	25.4	856	24.5	520	25.6	766	24.0	867	24.5
May	1,532	25.1	1,271	24.5	1,075	26.0	1,281	24.0	1,496	24.5
June	1,933	25.2	1,701	25.1	2,925	25.8	1,278	24.0	1,845	24.2
July	1,962	27.4	2,195	25.0	2,184	25.4	3,044	23.9	3,171	23.4
August	5,646	28.4	5,054	24.6	5,614	25.1	6,217	24.4	7,401	23.7
Sept.	7,126	29.0	6,966	25.2	7,683	25.1	8,119	25.9		25.0
Oct.	8,937	28.2	7,051	25.5	7,931	25.0	7,986	27.0		
Nov.	6,960	28.0	4,552	27.1	6,322	25.7	6,211	28.8		
Dec.	5,194	27.0	3,338	28.0	4,057	26.4	5,619	29.8		
Total	42,706		34,460		38,885		41,899			
Year		26.6		25.1		25.8		25.4		
Heavy Weight—Over 20 pounds live weight *Jeunes dindons*—20 livres et plus										
Jan.	1,591	23.5	2,244	23.0	624	24.5	1,918	26.0	2,274	26.0
Feb.	523	—	796	23.0	273	27.5	372	27.0	1,088	26.5
March	505	24.5	445	23.0	261	28.0	291	27.0	624	25.6
April	468	25.0	471	23.0	344	28.5	489	26.2	773	25.6
May	842	25.3	571	23.0	529	31.0	618	27.0	1,453	25.6
June	741	26.2	804	23.6	1,277	32.9	1,575	27.0	2,386	25.9
July	1,322	26.7	1,987	23.8	1,971	27.8	3,259	24.8	2,660	24.8
August	3,764	25.7	4,486	22.6	4,149	25.1	6,336	23.3	7,868	23.0
Sept.	8,140	25.9	10,353	23.0	10,008	24.3	12,581	23.4		23.0
Oct.	15,787	24.3	15,518	22.8	18,042	23.8	18,298	23.8		
Nov.	16,026	24.0	13,994	22.5	14,857	23.9	17,814	24.2		
Dec.	10,733	23.9	6,493	24.2	7,546	24.7	8,565	24.8		
Total	60,442		58,162		59,881		72,116			
Year		25.0		23.1		26.8		25.4		
GRAND TOTAL	128,108		123,080		140,373		163,230			

Volume of Broiler Chickens Processed at Registered Processing Plants

Volume de poulets de grill abattu aux postes enregistrés

Prix—London—Price

('000 lb. and ¢)

Month Mois	1962 Volume	1962 Price Prix	1963 Volume	1963 Price Prix	1964 Volume	1964 Price Prix	1965 Volume	1965 Price Prix	1966 Volume	1966 Price Prix
Jan.	17,071	14.5	20,162	19	24,501	18.2	24,510	17	27,515	19.5
Feb.	16,688	16	18,688	20.5	22,872	18.8	20,997	18.8	25,735	21.3
March	17,841	16	21,941	19.5	23,275	17.9	26,530	19.3	28,633	21.3
April	17,527	19	22,598	19.5	26,220	16.4	25,883	18.5	29,636	21.3
May	20,793	16.5	24,217	19	26,212	16,6	29,355	17	31,503	20.5
June	19,736	17.5	23,804	18.8	26,525	17.8	27,799	18.5	31,182	20.5
July	21,579	19.5	25,864	18.5	25,932	20	28,759	19	34,105	20.5
August	21,067	20.5	26,649	20	28,369	18.2	30,752	19.5	34,954	20.5
Sept.	19,739	20.5	24,802	19	27,439	17.2	29,008	19.5		
Oct.	19,771	20.5	24,529	20	26,643	17	27,730	19.5		
Nov.	19,782	20	24,555	17.3	25,866	16.5	29,962	19.5		
Dec.	15,682	19	19,170	18.5	21,754	17	27,028	19.5		
Year	227,276		276,979		305,608		328,313			

All Canada Weighted Prices Paid to Producers for all Grades of Eggs.
Prix pondérés payés aux producteurs de tout le Canada pour toutes les catégories d'oeufs.

All Canada Receipts of All Grades of Eggs at Registered Egg Grading Stations.
Récettes d'oeufs de toutes les catégories reçues aux postes de classement enregistrés dans tout le Canada.

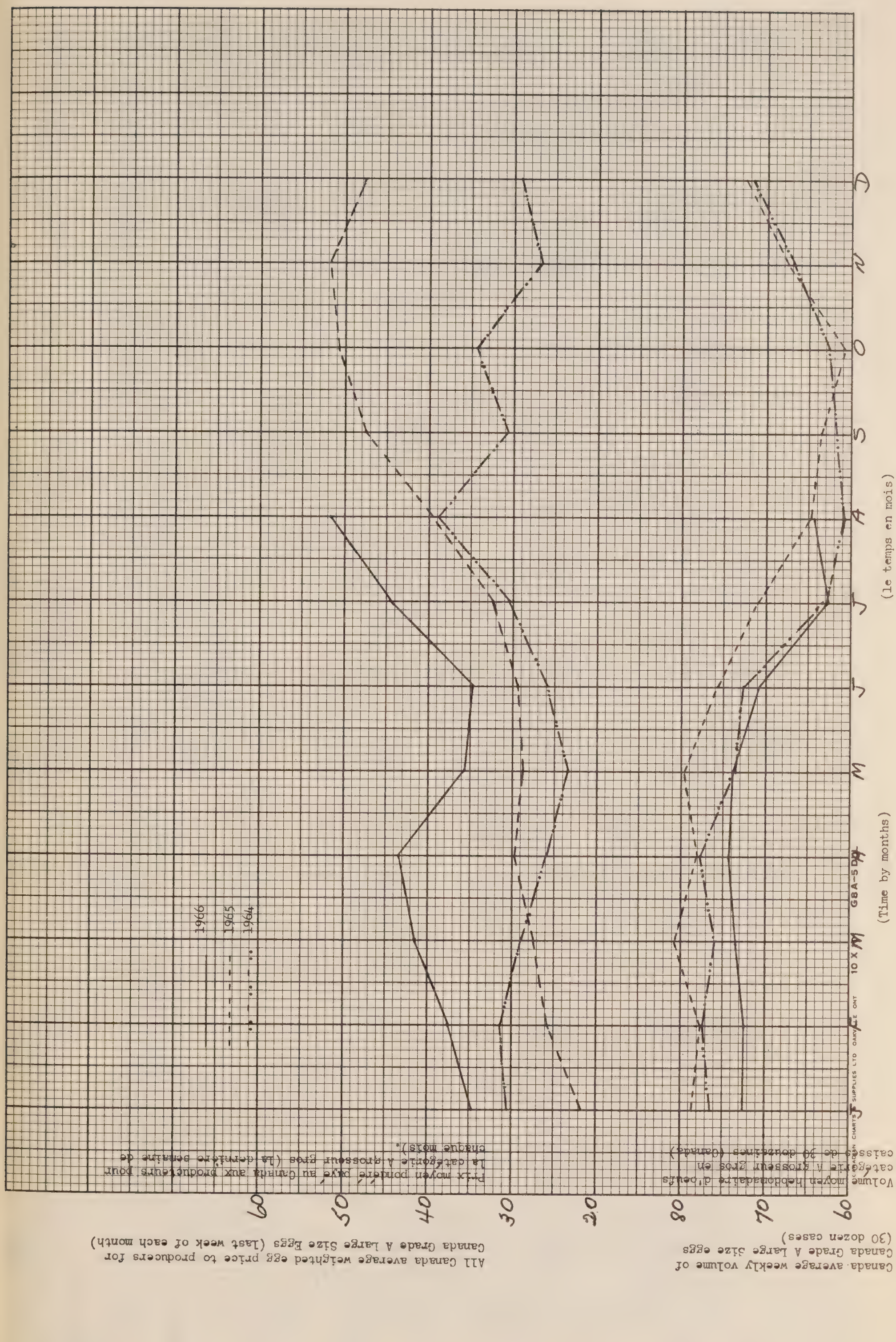
('000—30 doz. cases)

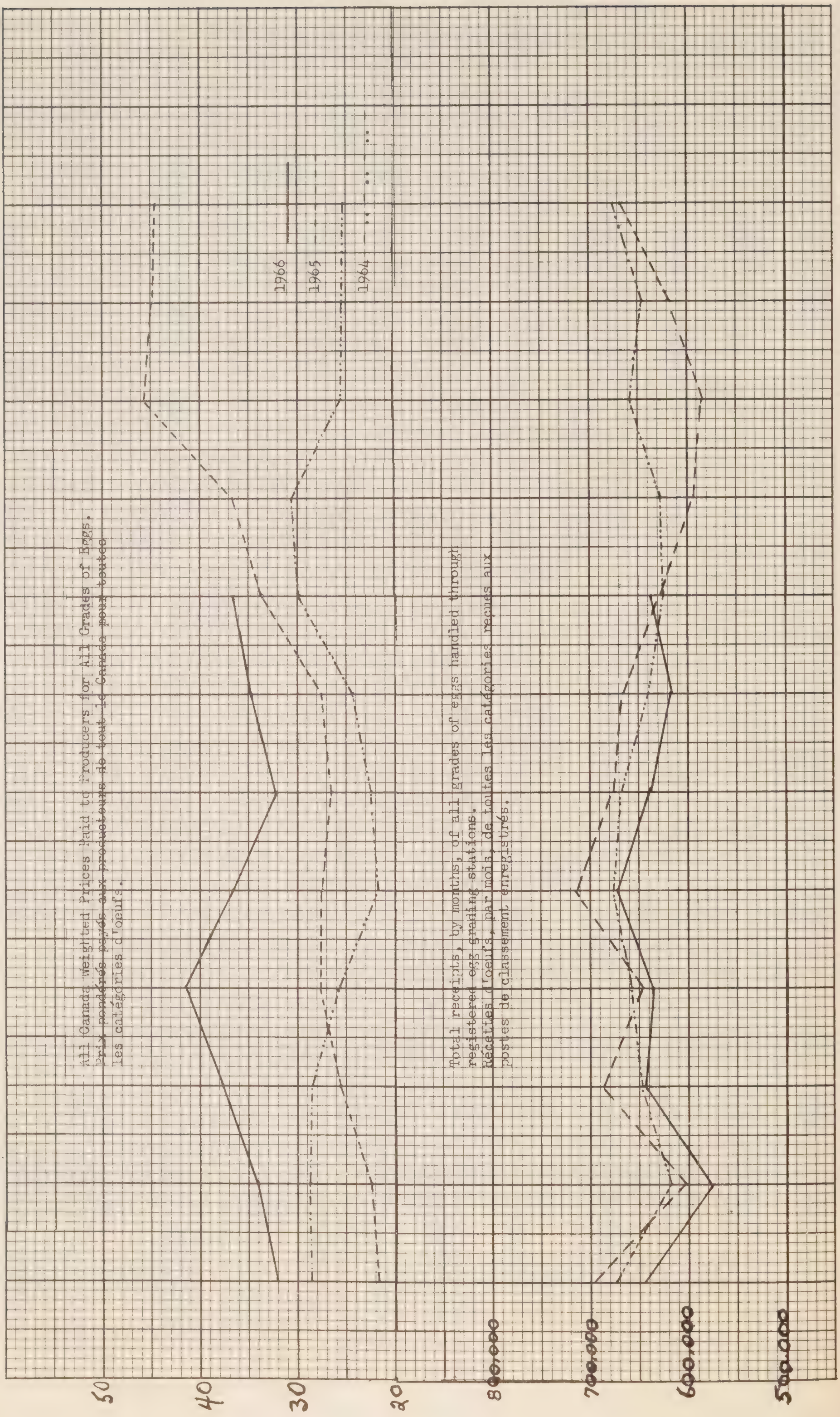
Month Mois	1962 Volume	1962 Price Prix	1963 Volume	1963 Price Prix	1964 Volume	1964 Price Prix	1965 Volume	1965 Price Prix	1966 Volume	1966 Price Prix
Jan.	655	26.4	620	27.1	670	28.5	698	21.7	646	32.0
Feb.	531	29.6	513	33.1	617	28.6	600	22.1	573	34.0
March	587	30.4	565	35.8	646	28.4	687	25.4	642	37.6
April	606	29.1	616	34.4	653	25.7	647	27.5	634	41.4
May	667	24.2	631	30.2	679	21.8	712	27.3	671	36.5
June	629	23.6	581	29.8	667	22.1	675	26.2	639	32.1
July	580	24.5	591	33.2	639	24.1	666	27.4	617	34.8
August	563	34.2	554	34.4	624	29.9	626	33.4	636	36.7
Sept.	531	33.1	534	41.9	626	30.4	591	36.7		
Oct.	582	36.5	571	41.3	654	25.5	581	45.7		
Nov.	555	38.8	573	34.1	645	25.2	618	44.9		
Dec.	611	30.6	613	31.1	672	25.1	668	44.4		
Year	7,097		6,965		7,796		7,771			

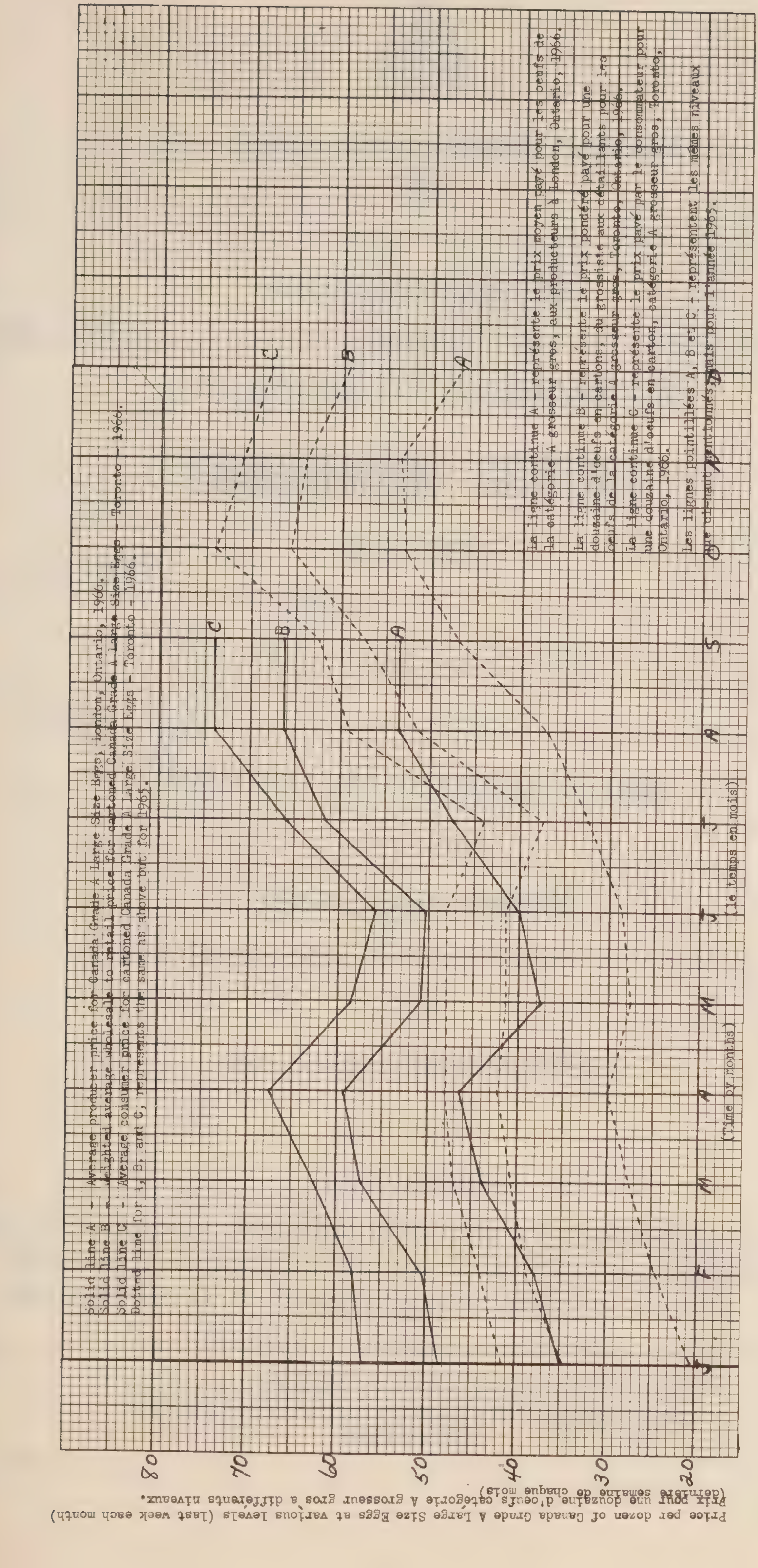
Canada Average Weekly Volume of Canada Grade A Large Size Eggs—30 doz. cases.
Volume moyen hebdomadaire d'oeufs catégorie A grosseur gros en caisses de 30 douzaines (Canada).

All Canada Average Weighted Egg Price to Producers for Canada Grade A Large Size Eggs (last week of each month)
Prix moyen pondéré payé au Canada aux producteurs pour la catégorie A grosseur gros (la dernière semaine de chaque mois)

Month Mois	1962 Volume	1962 Price Prix	1963 Volume	1963 Price Prix	1964 Volume	1964 Price Prix	1965 Volume	1965 Price Prix	1966 Volume	1966 Price Prix
Jan.	76,143	28.8	71.739	28.4	76,217	30.3	78,682	21.8	72,527	34.4
Feb.	71,746	31.0	68,553	37.7	77,382	31.1	77,570	25.8	72,205	37.2
March	72,933	32.0	68,961	34.8	75,905	28.9	80.804	27.2	73,409	41.5
April	75,013	28.6	75,946	33.7	77,867	26.9	77,956	29.4	74,291	43.2
May	73,727	26.2	71,651	32.3	73,630	23.1	79,732	28.8	73,885	35.6
June	69,198	28.5	65,987	30.8	72,196	25.9	75,369	29.2	70,665	34.3
July	58,698	29.4	61,983	39.1	63,870	30.2	70,918	32.3	62,650	44.4
August	57,414	40.1	56,095	41.6	60,824	38.8	64,902	39.6	64,428	51.7
Sept.	51,836	41.0	54,241	50.1	61,947	30.7	63,525	47.3		
Oct.	54,786	37.8	54,878	44.3	62,441	34.2	60,637	50.7		
Nov.	57,597	46.8	58,479	37.9	66,587	26.7	67,277	51.7		
Dec.	66,036	33.8	65,838	32.4	71,520	29.0	72,253	47.5		


All Canada average weighted egg price to producers for Canada Grade A Large Size Eggs (Last week of each month)
Prix moyen pondéré payé au Canada aux producteurs pour la catégorie A grosseur gros (la dernière semaine de chaque mois).
Canada average weekly volume of Canada Grade A Large Size eggs (30 dozen cases)
Volume moyen hebdomadaire d'oeufs catégorie A grosseur gros en caisses de 30 douzaines (Canada)
(Time by months)
(le temps en mois)
1966
1965
1964
J F M A M J J A S O N D
60
50
40
30
20
80
70
60


All Canada Weighted Prices Paid to Producers for All Grades of Eggs.
Prix pondérés payés aux producteurs de tout le Canada pour toutes les catégories d'oeufs.
Total receipts, by months, of all grades of eggs handled through registered egg grading stations.
Récettes d'oeufs, par mois, de toutes les catégories reçues aux postes de classement enregistrés.
1966
1965
1964
JAN.
FEB.
MAR.
APR.
MAY
JUNE
JULY
AUG.
SEPT.
OCT.
NOV.
DEC.
50
40
30
20
800,000
700,000
600,000
500,000


Solid line A - Average producer price for Canada Grade A Large Size Eggs, London, Ontario, 1966.
Solid line B - Weighted average wholesale to retail price for cartoned Canada Grade A Large Size Eggs - Toronto - 1966.
Solid line C - Average consumer price for cartoned Canada Grade A Large Size Eggs - Toronto - 1966.
Dotted line for A, B, and C, represents the same as above but for 1965.
La ligne continue A - représente le prix moyen payé pour les oeufs de la catégorie A grosseur gros, aux producteurs à London, Ontario, 1966.
La ligne continue B - représente le prix pondéré payé pour une douzaine d'oeufs en cartons, du grossiste aux détaillants pour les oeufs de la catégorie A grosseur gros, Toronto, Ontario, 1966.
La ligne continue C - représente le prix payé par le consommateur pour une douzaine d'oeufs en carton, catégorie A grosseur gros, Toronto, Ontario, 1966.
Les lignes pointillées A, B et C - représentent les mêmes niveaux que ci-haut mentionnés, mais pour l'année 1965.
A
B
C
80
70
60
50
40
30
20
J F M A M J J A S O N D
(Time by months)
(le temps en mois)
Price per dozen of Canada Grade A Large Size Eggs at various levels (last week each month)
Prix pour une douzaine d'oeufs catégorie A grosseur gros à différents niveaux.
(dernière semaine de chaque mois)

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 5

THURSDAY, OCTOBER 6, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. S. Ron Basford, M.P.

WITNESSES:

Dept. of Agriculture, Production & Marketing Branch: Mr. R. K. Bennett, Director, Livestock Division; Mr. S. B. Williams, Assistant Deputy Minister; Mr. C. R. Phillips, Director-General.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

24961—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

For The Senate

Hon. David A. Croll, Joint Chairman

The Honourable Senators

Carter
Croll
Davey
Deschatelets
Hastings
Hollett
McDonald (*Moosomin*)
McGrand
O'Leary (*Antigonish-Guysborough*)
Thorvaldson
Urquhart
Vaillancourt—(12)

For The House Of Commons

Mr. S. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand
Andras
Basford
Bell (*Saint John-Albert*)
Cameron (*Nanaimo-Cowichan-The Islands*)
Cashin
Clancy
Coates
Crossman
Deachman
Duquet
Gray
Hees
Irvine
Leblanc (*Laurier*)
Lefebvre
Mandziuk
Matte
McCutcheon
Nasserden
Olson
Otto
Ryan
Saltsman—(24)

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the votes and proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966," where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

LEON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative."

J. F. MACNEILL,
Clerk of the Senate.

24961—1½

MINUTES OF PROCEEDINGS

THURSDAY, October 6th, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.00 a.m.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Hastings, McDonald (*Moosomin*), McGrand, O'Leary (*Antigonish-Guysborough*) and Vaillancourt.—7

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Cameron (*Nanaimo-Cowichan-The Islands*), Clancy, Gray, Leblanc (*Laurier*), Lefebvre, McCutcheon, Olson, Otto, Ryan and Saltsman.—12

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant; Mr. John J. Urie, Q.C., Counsel.

The following were heard:

Department of Agriculture, Production and Marketing Branch:

Mr. R. K. Bennett, Director,
Livestock Division.

Mr. S. B. Williams,
Assistant Deputy Minister.

Mr. C. R. Phillips,
Director-General.

Tables and charts referred to by Mr. Bennett and Mr. Phillips are printed herewith as Appendices 4 and 5 respectively.)

At 12.30 p.m. the Committee adjourned until Tuesday next, October 11, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

OTTAWA, Thursday, October 6, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9 p.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: I see a quorum, and call the meeting to order. Our first witness is Mr. R. K. Bennett, Director of the Livestock Division, Production and Marketing Branch, Department of Agriculture. Two documents to which Mr. Bennett will refer have been distributed to all present.

R. K. Bennett, Director, Livestock Division, Production and Marketing Branch, Department of Agriculture: Mr. Chairman and gentlemen, we propose this morning to present a review of the situation with respect to beef cattle and hogs.

Cattle prices in Canada are on a North American economy. Cattle on farms in Canada are part of the North American pool of cattle and make up about 10 per cent of the combined supply in the two countries: about 12.5 million cattle and calves in Canada, approximately 106.6 million in the United States, a total of around 119.1 million. The 3.6 million beef females in Canada represent only 8 per cent of the total in both countries, 44.5 million.

Canadian cattlemen occupy a unique position in Canadian agriculture. More than any other segment of farming in the country they operate on and are a part of the North American economy. Live cattle and calves may move both ways across the border. This is also the case with respect to beef and veal. So cattle prices in Canada are tied directly to price levels in the United States.

The outlet for feeder cattle in the United States sets the general level of prices in Canada at any particular time for this class of cattle. Exports of feeder cattle in the last three years have been approximately as follows:

1965	396,000 head
1964	90,000 head
1963	157,000 head

In effect, the United States outlet and demand sets what might be referred to as a "floor price" for feeder cattle in Canada.

With respect to fat cattle, when there are more in Canada than the domestic market will absorb at a price level above the equivalent of the export outlet in the United States, fat cattle will move south, particularly from Southern Alberta to the Pacific Northwest of the United States. When this situation prevails, fat cattle prices in Canada are on what is referred to as an "export basis," and the United States price level sets a "floor" below which Canadian prices do not drop. The export of live cattle for slaughter has not been large over the past three years, and is as follows:

			Per cent of inspected slaughter
1965	approximately	57,800 head	2.1
1964	"	27,500 "	1.1
1963	"	17,500	0.8

When we are on an "export basis" the price of Canadian Choice steers at Toronto in Canadian dollars is about the same as the price level for United States choice steers at Omaha in United States dollars.

On the other hand, when marketings of fat cattle in Canada are in short supply, the price may move up to a level where United States live cattle and/or beef may be imported. This happened in the spring of 1964, when prices at Toronto rose to a sufficiently high level to create an "import basis" and over 30,000 slaughter cattle came in from the United States in about a three-month period. During that time the United States price set a "ceiling" above which prices in Canada did not rise.

When price levels are on an "import basis" the price for Canadian Choice steers at Toronto is about $4.25 per hundredweight higher than the price for United States choice steers at Omaha. You will appreciate, Mr. Chairman, that the factors of duty, freight and exchange are involved. Improvement in Quality and Increase in per capita Consumption:

There has been a decided upward trend in per capita consumption of beef since 1950. In that year it was 50.6 pounds; in 1965 it reached 78.7 pounds and will be about the same in 1966.

Since 1950 the cattle feeding business—feedlot operations—has made rapid strides. The weekly average of the Choice and Good grades, the two top grades of beef, combined in 1950 was only 4,146 carcasses, representing 16 per cent of the total inspected slaughter. By 1965 the weekly average of the total of Choice and Good carcasses had risen to an average of 25,940 and constituted a little over 49 per cent of the total kill. As of September 24, 1966, the weekly average has been 27,009, 52.9 per cent of the total.

This change in quality over the last 17 years may be attributed to three main factors:

> The ever increasing consumer demand in the domestic market for beef of these higher grades.
>
> The dramatic increase in beef breeding females (from about 1.5 million in 1950 to 3.6 million in 1966) has made possible the sharp increase in the supply of feeder cattle available for finishing to either Choice or Good grade.
>
> The feedlot operators have learned the technique of efficiently producing a product of an improved quality that in general gives consumer satisfaction.

Reporting of Marketings and Prices of Live Cattle:

The Department of Agriculture issues prices received by the producer and other relevant data on cattle—and other livestock—offered for sale on public stockyards. There is a total of 10 such central or terminal markets operating under the Livestock and Livestock Products Act.

Prices are reported on a daily, weekly and monthly basis. Statistics with respect to volume of marketings of livestock include sales on public stockyards, direct deliveries to packing plants, and livestock shipped direct on export.

Recent Price Trends of Live Cattle:

The average annual price of Choice steers at Omaha and at Toronto for the past five years:

	Toronto	Omaha
1965	$25.20	$24.99
1964	24.05	22.41
1963	25.05	23.58
1962	27.20	26.92
1961	24.20	24.43

As we have stated before in the document, this is for Canada Choice grade steers at Toronto in Canadian dollars and for U.S. choice steers at Omaha in U.S. dollars. For 1965 the average annual price at Toronto was almost the same

as at Omaha. During the last quarter the price levels at Toronto were above the "export basis".

For the first seven months in 1966 the simple average price at Toronto for Choice steers was $27.03 compared to a simple average price of $26.24 at Omaha. During those seven months Canada exported only 24,309 head of slaughter cattle, which is about $1\frac{1}{4}$ per cent of our inspected slaughter, and at times the price at Toronto was above the "export basis," particularly during the first two months.

Hog Prices in Canada are on a "North American Economy":

As is the case with cattle, hog prices are directly related to price levels in the U.S. Pork products move both ways across the border. Live slaughter hogs cannot be imported into Canada, that is due to the incidence of cholera in the United States, and there is virtually no movement of live hogs in the other direction. Live hogs from Canada do not go to the United States, primarily because of the quality premium which is paid on Grade A, on hogs that are officially graded here in Canada.

However, there is one essential difference between hogs and cattle. Pork products move mainly in the form of cuts—hams, backs, bellies, butts and picnics. The bulk of beef moves in its original form, either as live cattle or in carcass form, usually in quarters. There are also some cuts shipped, and some bonus beef.

As a result, it is always possible to make, in the case of cattle, a direct comparison between price levels in the two countries (Canada may be on an "export basis"; on an "import basis," or somewhere "in between"). In the case of hogs, although there is always a direct relationship between the price levels of hogs at Toronto and at Chicago, the pattern is less clear because at most times pork products are moving in both directions.

Due to what might be termed a difference between the two countries in consumer preference for various cuts of pork, there is a situation in the U.S. where hams and backs sell for a higher price in comparison to bellies and shoulder cuts, than is the case in Canada. Therefore, there is a continuous outlet in the U.S. for high quality lean trimmed cuts, particularly hams and backs. The chief export is hams, mainly in the weight range 16 pounds and up, the bulk of which go into the U.S. Atlantic Seaboard area. Such Canadian hams bring a definite premium, at times as high as 10 cents per pound over American hams. In addition, there is a regular trade in canned hams. Back bacon from Canadian hogs is considered a luxury item in the U.S., due to its high quality. There is a limited demand for bellies, mainly in the Pacific Coast area of the U.S., to go into a speciality market.

Thus, although the effect of U.S. hog prices on price levels in Canada is not quite as clearly defined as is the case with cattle, the U.S. price does in effect at any time provide a floor below which prices do not drop in Canada. On the other hand, the U.S. price level creates a ceiling which limits the level to which prices will rise in Canada during periods of light marketings in this country.

Trends in Per Capita Consumption of Pork:

The 1950 per capita consumption of pork was 54.9 pounds. For the last three years it has been 50.7, 52.0 and 49.2 pounds respectively.

Hog Quality:

During the 20-year period 1940-1959 the percentage of Grade "A" in the total gradings remained fairly constant, ranging from about 28 to 30 per cent.

Since then there has been a marked improvement and in 1966 to date—September 24—the average for Grade "A" is 40.3 per cent. This change is largely due to the fact that hogs are now produced in larger units than was formerly the case and this change has led to better management and greater attention to marketing at proper weights with a desirable degree of finish.

Reporting of Gradings and Prices of Hogs:

The procedure is the same as with cattle, except that prices are issued on a dressed weight basis. For example, if a quotation is $33 in Toronto for grade A, that means it is 33 cents a pound, for each pound.

If it was 27 cents for Choice steers in Toronto, that means it is $27 per hundredweight, live weight of steer.

On page 4 you will see a table giving the recent price trends in hog prices. The Chicago prices are given in U.S. dollars and the Grade "A" Toronto prices are given in Canadian dollars. The official quotations there are on the live basis of stock. We have translated that into the dressed equivalent at 75 per cent yield, in order to make a direct comparison with Canadian prices.

The table is as follows:

Recent Price Trends in Hog Prices

CHICAGO

Barrows and Gilts

	Live	*Dressed Equivalent*	*Grade "A" Toronto*
August 1966	$26.37	$35.16	$33.98
January 1966	29.17	38.89	42.73
1965	22.29	29.72	33.40
1964	16.16	21.55	27.30
1963	16.07	21.43	27.80
1962	17.52	23.36	29.60
1961	17.78	23.71	28.30

Beginning in June 1965, hog prices moved up sharply. In Chicago prices rose from an average of $28.21 dressed in May, which is based on the official quotation of $21.16 live, to an average of $38.39 dressed in December. At Toronto Grade "A" moved from an average of $30.46 in May to an average of $41.64 in December. If you work out the percentage increase in each case, in Chicago it is 36.1 per cent and in Toronto 36.7 per cent, which illustrates the close relationship between the prices, or the movement of prices, in both areas.

The main reason for the sharp increase in the United States was the reduced marketings in 1965 compared to 1964. In the first five months, hog marketings in the United States dropped 12 per cent below the same period in 1964. In the last seven months the drop was 5.5 per cent. In the last quarter, when prices rose to their peak, marketings were a full 20 per cent below 1964, and the average drop for the year was 11.1 per cent.

There were other contributing factors to this rise in price, particularly the unusually small supply of pork in storage at May 31, 1965. In the United States at that time there were 265 million pounds of pork in storage compared with 432 million pounds at the same date in 1964, a drop of about 40 per cent, and there was another factor involved, namely, that beef supplies did not increase.

The upward trend in prices continued into 1966 and remained very high in the first two months, during which marketings in the United States were 17.4 per cent below the 1965 level and 27.1 per cent below the 1964 marketings. From February on there has been a gradual increase in marketings, with a resulting drop in prices. For the week ending October 1, Chicago averaged about $31 dressed, based on $23.25 live, and Grade "A" at Toronto averaged about $33.75.

I would now like to turn to the tables. (*See Appendix* "4".) Table I is a record of the weekly average of inspected slaughterings in Canada. You will note that there has been a steady increase from 1962, when the weekly average

was 39,002, until 1965, when the weekly average was 52,585. To date this year in 1966 we are up about 1 per cent over the same period for last year.

The second table on that first sheet, Table I, is the weekly average inspected slaughterings in the United States. There has been a steady increase since 1961, when the weekly average was 384,000, right through until 1965, when the average was 511,800. To date this year they are up over 4 per cent.

Turning to Table II, this is the table of monthly figures that make up the annual yearly averages that were shown on the bottom of page 2 of the text. Taking Toronto first, you will see that on page 1 of the text we say, talking about the import basis:

> "This happened in the spring of 1964, when prices at Toronto rose to a sufficiently high level to create an 'import basis' and over 30,000 slaughter cattle came in from the U.S. in about a three-month period."

Now, if you take those three months of 1964, April, May and June, you will notice that the average monthly prices at Toronto were $24.25, $24.25, $24.25. It was the same average for each of the three months, but in July it went up to $24.78.

If you drop down to the same months in Omaha, their prices were $20.88, $20.28, $21.25. In other words, owing to a shortage or at least a temporarily smaller supply of fed cattle in Canada, the price went up here until we were on an import basis, and about 30,000 cattle came in. The figures on Table II illustrate the price situations that brought that about.

At the bottom of page 2 of the text we say that for 1965 the average annual price at Toronto was almost the same as at Omaha. During the last quarter the price levels at Toronto were above the export basis. You will see that the average for Toronto for the year 1965 was $25.20. The average for Omaha was $24.99. Therefore, this led to the conclusion that, on the average, they were about the same.

Then we say that during the last quarter in Toronto they rose above the export basis. If you go back and look at the average monthly prices for the last quarter in 1965, in Toronto you will see that they read $25.50, $26.06 and $26.79. Compare that with the three figures at the bottom for Omaha, $25.33, $24.93 and $25.38. Toronto prices were substantially above.

Now, what has happened in 1966? You will see that for five of the nine months Toronto prices have been higher than prices at Omaha, which is the reason why the average price at Toronto for the eight months to date is higher than it has been at Omaha.

Table III is simply a statement of the exports of beef and veal, and it is listed to the United States and to other countries. Without reading all of them, you will notice that in 1961 we exported over 29 million pounds to the United States; 2.2 million pounds were exported to other countries, for a total of 31.2 million. In 1965, 72 million pounds was exported to the United States and 10.7 million was exported to other countries, for a total of 82.7 million pounds.

The preliminary figures for export to the United States to September 3, 1966, that is this year, show a total of 46.4 million pounds compared with about 36 million pounds for the same period in 1965.

The next table deals with the imports of beef and veal. Reading only 1961 and 1956, in 1961 we brought in 17.4 million pounds from the United States and 23.7 million pounds from other countries, for a total of 41.1 million. Dropping down to 1965, the figures show that we imported 12.4 million from the United States and 14.6 from other countries for a total 27.0 million pounds.

The footnote there says that exports include beef and veal, fresh and frozen, and beef cured. Imports include beef and veal, fresh and frozen, beef cured, beef and veal canned and corned beef canned.

The next item on Table III is exports and imports of live cattle between Canada and the United States. The exports, as listed for the five years 1961-1965, show 466,591 cattle in 1961 plus 28,699 calves; 448,471 cattle in 1962 plus 36,451 calves; 236,877 cattle in 1963 plus 35,194 calves, 165,550 cattle in 1964 plus 48,873 calves; and 532,037 cattle in 1965 plus 60,763 calves. In all cases I am referring to veal calves for slaughtering, not calves for feeding.

These export figures are broken down into categories. In 1965 there were purebreds and dairy cattle amounting to 34,020, and, for the balance of the cattle, which is broken into two weight ranges, either slaughter or feeder cattle, there were 356,929 in the weight range of 200 pounds to 700 pounds, and 141,088 in the weight range over 700 pounds.

Out of the total number of cattle exported in 1965 it is estimated that about 396,000 feeder cattle and calves went to the United States, having originated in western Canada, the annual peak of that movement is right on at the present time, because calves are being weaned in western Canada and yearling cattle are coming off the ranges.

The imports of slaughter cattle are listed on Table III, and you will note, as we have already emphasized, that the only significant movement was in 1964, and that came in during the three-month period in the spring.

Table IV, Choice and Good beef carcasses. In the text it was mentioned that in 1950 the weekly average of the Choice and Good grade combined was 4,146. That represented about 16.8 per cent of the total. The total of Choice and Good has increased every year, and if you analyze the figures for 1965 you will see that in that year the weekly average of choice was 17,317, and the weekly average of good was 8,623, for a combined average of 25,940, or a little over 49 per cent of the total kill. In the first eight months of this year the average has gone up a little to 26,821 per week, representing 52.6 per cent of the total. Actually, a high percentage of the beef that goes over the counters, what you might call block beef, is now made up of the two top grades, almost 53 per cent today, and if you add to that the Standard grade, which is about another 9 per cent, you have about 62 per cent in the three top grades. Then, if you subtract from that the 16 per cent which are canner cows or manufacturing beef, you do not have a very large percentage of the beef that goes over the retail counters in grades other than Choice and Good, particularly if you add the third grade, Standard, to the total of Choice and Good.

We have listed Table IV here the tariff rates on livestock and meats between Canada and the United States, and the Canadian rate on imports from Australia and New Zealand. With respect to cattle under 200 pounds, the rate is reciprocal, 1-1/2 cents each way. For cattle seven hundred pounds and over, including dairy cows it is the same story, 1-1/2 cents each way. If you refer back to the cattle, 200 to 699 pounds—which category is generally referred to as 200 to 700 pounds—you will notice that the rate going into the United States is 2-1/2 cents, rather than 1-1/2 cents on what weighs under 200 and on what weighs over 700. If there were any feeder cattle coming in from the United States the rate would be 1-1/2 cents, but that is an academic question because we do not bring them in.

The rate on beef and veal is reciprocal, 3 cents each way. Hogs live, one cent each way. Pork, fresh or frozen, 1-1/4 cents in each direction. Bacon and hams—you will notice that the tariff into the United States is 2 cents if unboned, that is in carcasses or cuts, and 3 cents in boneless form; whereas product coming in from the United States is assessed a rate of 1-3/4 cents.

Table V, hog marketings. This shows the weekly average gradings, and you will notice that in Canada hog production did not vary very much in the three years 1961, 1962 and 1963, when it was 124,000 a week, 126,800 and 125,400,

respectively. It stepped up to 140,000 a week in 1964, and then dropped back to 136,000 in 1965.

The table at the bottom shows the weekly average inspected slaughter for the United States. The significant thing there is the sharp drop which they had in hogs in 1965. Their total slaughter in 1964 was 71,667,000, and that total dropped in 1965 to 63.7 million.

Table VI, hog prices. In the script on page 4 it was noted that, beginning in June, prices rose very sharply. Looking at 1965 and dropping down to May you will see that in May Grade "A" hogs averaged 30.46 and started to rise in June averaging 34.81 to 36.24 in July, 36.66 in August, 36.88 in September; there was a slight drop in October, 35.90, 37.58 in November and 41.64 for the last month of the year, December.

There is almost identically the same pattern at Chicago. If you look at their price in April, it was 24.51, and then went up steadily over the next 4 months to 28.21, 32.28, 33.12 and 33.47 respectively. There was a little dip in September, 31.17, followed by a slight use in October, 32.13, and then it was 33.75 in November and averaged 38.39 in December.

It is also mentioned in the text that prices remained very high for the first two months of 1966. Looking under 1966 at, the Toronto figures, you will see the average of Toronto for Grade "A" in January and February was 42.73 and 43.19, which was higher than in December.

If you refer to the Chicago figures you will find that they also remained very high in the first part of 1966, 38.89 in January and 38.31 in February. In a general way prices have been dropping since they peaked at that time.

Table VII, exports and imports of pork. 1960-1965. Using the 1960 figures, you will see there were a little over 45 million pounds exported to the United States, and 24.6 million pounds to other countries, for a total of 69.6 million. In 1965, that is last year, we exported 53.3 million to the United States and 3.5 million to other countries, for a total of 56.8 million.

Imports: In 1960, 17 million from the United States and very little from other countries; and in 1965, 27.5 million from the United States and 9.1 million from other countries, for a total of 36.6 million. The exports include fresh and frozen pork; bacon and sides, cured; other pork cured; boiled ham cooked; hams canned, pork canned. Imports include fresh or frozen pork and, pork cured including salted.

We have also some charts. Chart "A" shows that the growth of cattle on farms in Canada and the United States has been almost parallel, particularly with respect to the general trend that has taken place.

Chart "B" illustrates the close relationship that has been revealed by the monthly average prices between the price per hundredweight of Canada Choice steers at Toronto, in Canadian dollars, and United States choice steers, at Omaha, in U.S. dollars. Once again, the general pattern shows a very close parallel.

Chart "C" shows, in graph form, the price per hundredweight of Grade "A" hogs at Toronto, in Canadian dollars, and the price per hundredweight of choice barrows and gilts at Chicago, in U.S. dollars. As is the case with cattle, hog prices in Canada operate under the North American economy. The price lines on this graph run fairly close. There is one difference. You will notice that the price of Canadian hogs is invariably higher than the price of Chicago hogs. This is due to the fact that, on the average, Canadian hogs are of higher quality and are therefore worth more money at any particular time. They do not, in general, carry as much fat and thereby require less trimming than U.S. hogs.

Chart "D" shows the per capita consumption of meat, excluding poultry meat. This concerns tha two products with which we are dealing. In 1950 beef

was 50.6 pounds per capita, and last year it was 78.7 pounds per capita. Pork was 54.9 pounds per capita in 1950, and 49.2 pounds per capita last year.

It is rather interesting to note that the total consumption of meat shown by the top line of the graph has been almost consistently upward.

Mr. Chairman, that finishes my formal presentation.

Mr. CAMERON: Mr. Bennett, there seems to be a very close correlation, aptly enough, between the export of beef to the United States and the rise in price in Canada. I wonder if you can give us any explanation as to the chief cause of the very sharp increase in beef exports to the United States in 1965, and the even greater increase in the first eight months of this year.

Mr. BENNETT: You are talking about exports of beef, and not exports of cattle?

Mr. CAMERON: Yes, exports of beef and veal.

Mr. BENNETT: In 1965, in general, it is my opinion that the increase was almost entirely due to the severe drought conditions that we had in many parts of Canada, which led to a situation which was not exactly a liquidation but certainly resulted in a lowering of the numbers of cattle that went into the barns last winter and which were carried over. That class of cattle, which was composed mostly of canners and cutter cows, are really the discards of the dairy industry, although many of them would have been kept longer if there had been normal feed conditions. Most of them went into the type of product which we export in largest volume to the United States. These were cattle of the lower grades, the carcasses of which are made either into cuts or into boneless beef for manufacture.

This does not answer as simply your question with respect to 1966. I have not tried to analyze that, but there has been a continuing trend in what we call the cattle cycle of selling females in abnormal numbers this year. This may or may not be an explanation, but I am not as certain of my comments with respect to 1966 as I am of my answer with respect to 1965. We will be pleased to look into that for you to see if there is any more information available.

Mr. CAMERON: If you would, I would be very glad to hear it.

Mr. ALLMAND: Can you tell us the steps that a hog goes through from the time it leaves the producer until it gets to the consumer? In other words, how many times is it sold, and what takes place at these different steps? Let us take, for example, hogs that go into bacon.

Mr. BENNETT: Would it be in order to describe the process in this province, because it varies somewhat across Canada.

Mr. ALLMAND: Yes.

Mr. BENNETT: In the Province of Ontario all hogs are required by law to be delivered to assembly points operated by the Ontario Hog Producers' Marketing Board. The hogs are offered for sale by a teletype method of auction. They then move to the packing plant that purchases them, and they are slaughtered. At that stage the packer makes the carcass into various products. For example, there are the five major cuts—hams, loins, bellies, picnics and butts. The picnics and butts are the two shoulder parts—the butt is the upper portion, and the picnic is the lower part where the leg is attached.

The packer is generally not able to sell all of the back portion of the carcass in the form of fresh loins, and the balance has to be boned out and made into what is called a boneless back, and this is where back bacon comes from. Some of the products are sold fresh. In the case of hams, which represent about 20 per cent of the carcass weight, only a small percentage is sold fresh because most of the hams are cured and smoked. The packing industry will be able to give you the percentage of the backs that they sell in the form of fresh loins and the percent sold as boneless backs.

There are very few fresh bellies sold. They go mainly into the form of sliced bacon. However, some sides are sold in slab form to be sliced by the retail store. There is some sale of fresh shoulders, and, once again, the industry can give you the average percentage. The balance is made into cured or smoked butts, and cured and smoked picnics. This is the form, in general, that the product shows up in at the chain store.

I was going to say that to specifically answer your question, as I interpreted it, there are really two sales—the one in which the Ontario Hog Producers' Marketing Board sells to the packer, and the other in which the packer sells the carcass or the hog in all these different forms to the retailer.

Senator McDONALD: Either for local or for export?

Mr. BENNETT: Yes, either for local or for export. Obviously, if he is selling it for export he will not be selling it through the same channels as when product is for the domestic market.

Senator McDONALD: But it is sold by the packer?

Mr. BENNETT: Yes.

Mr. OTTO: Does the farmer deliver directly himself to the Marketing Board, or is it done through a jobber? Is there another step in there?

Mr. BENNETT: No, either the farmer or the farmer's agent, who is a trucker, delivers the hogs to the assembly yards that are operated by the Marketing Board in the Province of Ontario.

Mr. OTTO: And the agent works on a percentage?

Mr. BENNETT: He is just a trucker or just a transportation agent, and nothing more.

Mr. ALLMAND: Does the price at which the Marketing Board sells to the packing house include the costs of both the farmer and the Marketing Board?

Mr. BENNETT: Hogs are all sold f.o.b. the assembly yard. For example, if a group of hogs goes on the teletype, which is a competitive method of selling, and the price ends up at 33 cents at the Kitchener yards, then all the costs of handling the hogs after that are to the account of the packing house or the purchaser.

Mr. Williams (Assistant Deputy Minister Production and Marketing, Department of Agriculture): If I can enlarge on that for one minute, I will say that the operations of the Board itself are financed by deductions from the total cost of the hogs. There is a flat deduction made by the Board to finance its own operations.

Mr. ALLMAND: In respect of poultry, I believe, the other day we had prices from the producer to the packer, and then from the packer to the retailer, and then from the retailer to the customer, and we could see the spread in price between these different levels. I wonder if this could be done with respect to this type of product?

Mr. BENNETT: There is one very basic difference which makes it difficult to analyse the prices of these products at the various levels in an identical manner, in that the poultry, broilers, turkeys and eggs move at all stages in the same form that is, a broiler, a turkey, a dozen eggs as the original unit. This does not happen in the case of meats. The farmer sells a live hog which the packer buys in the form of a dressed carcass, and from then on the carcass is taken apart and it ends up in a whole variety of cuts which are not exactly standard from week to week in an individual packing plant, in that they may make more boneless product one week than they do the next. I think it would be fair to comment that it is just not possible to set up, with respect to either beef or pork, the same type of statistics that are very valid in the poultry business.

Mr. ALLMAND: If you took a thousand head, say, at the average price the marketing board sells to the packing house and the packing house sells to the retailer, you could not do it that way, could you?

Mr. BENNETT: No, because the product from a hog may be sold over a considerable period of time. Pork products that are sold fresh may move out of the plant within two to three days. However, some of the products, due to various processes of manufacturing, may not be sold for quite a lengthy period after it is killed. I would say in some cases even up to six weeks.

Mr. ALLMAND: Therefore there is no way of knowing the price spread between the two levels?

Mr. BENNETT: No.

Co-Chairman Senator CROLL: Look at Table VI, which indicates that starting in March 1966 the monthly average price was $36.12, and then it continued to drop until in September it reached $33.92.

Mr. BENNETT: That is correct.

Co-Chairman Senator CROLL: What explanation can you give us that in light of the fall in prices here the price of bacon has continued to rise? I am no expert in pork, by the way, as you know.

Mr. BENNETT: I think I can quite honestly say in this phase of it that neither am I. We approach it with the same viewpoint.

Co-Chairman Senator CROLL: Not quite the same.

Mr. BENNETT: Quite frankly I do not have any definite opinion on this particular thing.

Co-Chairman Senator CROLL: Mr. Bennett, that is what this exercise is all about. We are members of Parliament and have to be informed and made knowledgeable, if someone can help us. That is what we are here for. These statistics are very nice, but unless they mean something to us in a concrete way we shall not get very far.

Mr. BENNETT: We are limited, by virtue of the way meats are handled and by what information is available. In the statistics I have given you here this morning is a record of prices to the farmer. If we were going to be in a position to make any valid comment in answer to your question, then we would have to go into quite a wide study, analysis and exploration of another area, in which we do not regularly operate.

Co-Chairman Senator CROLL: Well, who does?

Mr. WILLIAMS: The only answer I can give is that you will recall that earlier this week I presented evidence which I quoted from the Dominion Bureau of Statistics of their price findings with respect of half pounds of bacon. All we can say is that your observation with respect of the price received by the farmer is correct, your observation based on the information that we are able to gather from the Dominion Bureau of Statistics report, that the price of bacon has not fallen, is also quite correct.

Co-Chairman Senator CROLL: All right. Some members of the committee may wish to comment.

Mr. OTTO: May I ask a supplementary question? You gave us a general outline of the steps of marketing. For instance, the farmer has to pay the agent or the broker?

Mr. BENNETT: The farmer in Ontario has to assume the cost of deliveries to the assembly yard.

Mr. OTTO: And what is the next step?

Mr. BENNETT: The next step is that the farmer's hogs are mixed with other hogs, to make what they call a sales lot, and such a sales lot is bought by a packer f.o.b. at the assembly yard.

Mr. OTTO: There is only one transportation then, from the farmer to the assembly yard?

Mr. BENNETT: Yes; and the second is to the packing plant.

Mr. OTTO: Now, what about the slaughter?

Mr. BENNETT: The slaughter is all at the cost of the packer.

Mr. OTTO: Never mind that; where is the slaughter after it leaves the yard?

Mr. BENNETT: At the packing plant.

Mr. OTTO: So we have two transportations, two truckings, is that right?

Mr. BENNETT: Yes.

Mr. OTTO: The packer has to pay for the slaughtering?

Mr. BENNETT: Yes, slaughtering and processing.

Mr. OTTO: So we have five people altogether charging somewhere at this stage. When it is slaughtered, then it is processed by the packer?

Mr. BENNETT: That is right.

Mr. OTTO: Then where does it go?

Mr. BENNETT: He sells it generally on the basis of delivery to the retailer—usually on a basis of delivery to the buyer's premises.

Mr. OTTO: So there are seven steps.

Co-Chairman Senator CROLL: The Chairman is well aware of that. That really does not explain anything, because that is a normal proceeding. Those same steps were there from time immemorial. However, I am not here to give evidence. Mr. Ryan?

Mr. RYAN: I should like to ask the witness to refer to page 4 of his presentation, where he states, "Beginning in June 1965 hog prices moved up sharply." And prices suddenly jumped up roughly in the order of about a third. Apparently the explanation is that the main factor was a drop in pork storage in the United States at May 31, 1965. What were the factors that brought about this remarkable trend, and has this sudden effect upon the whole American market been the main cause of the high prices for pork until today?

Mr. BENNETT: Just to review, the prices went up because there was a sharp drop in the number of hogs. That is reason number one. There were just less hogs by far then the year before.

Mr. RYAN: Is there any reason for that?

Mr. BENNETT: Yes, the reason for that is that if you go back and look at the average prices in the year 1964 you will see the reason why the United States farmer was discouraged with the returns he had received for hogs, particularly in relationship to the price for which he could sell corn. I think it would be in order to point out, that in the central corn belt of the United States there is land that is admirably adapted to the production of corn, and in a general way the farmer indirectly sells corn rather than hogs. In 1964 the level of hog prices in the United States in relationship to the price of corn—if you look at the prices, at Chicago in 1964, you will see they were down to $19.87 in April, $21.13 in May, $21.41 in October, $20.40 in November and $21.97 in December. The United States hog producers as a group apparently decided that it was not profitable to continue to produce a large number of hogs at that level of prices, so they cut back. This led to a sharply reduced number of hogs in 1965, beginning in June.

I cannot interpret what the packers thought in the fall of 1964, but the fact is that they did not put as much product as usual in storage, apparently they did not believe that the price would rise to the levels it reached in 1965. They obviously concluded that the farmers were going to go on producing substantive numbers and didn't put many stocks into storage, and as you are aware, the

storing of pork products is a speculative process. So in 1965 there was a sharply reduced number of hogs, because the farmer did not find it profitable to continue at the 1964 price level. In addition there was abnormally low storage stocks of pork and finally, there was not any increase in beef supplies. These were the three main factors. This balance between supply and what you might call demand—without trying to define it in the number of hogs—is now so close that a small switch either up or down in the marketings will reflect on prices quite sharply.

Mr. RYAN: Have the Americans been exporting in unusually large quantities their pork or beef to other countries, particularly in the last year or two?

Mr. BENNETT: No. The United States is a net importer, quite substantially.

Mr. RYAN: Has the Vietnam war had any impact on this situation?

Mr. BENNETT: You will recall that the United States army took some steps with respect to what they were going to buy in regard to pork. You will recall that some organizations in the United States did claim it had an effect; but we have no knowledge as to whether it had or not.

Mr. RYAN: Your main opinion is that the effect on both the pork market and the beef market is this association getting together on these prices and this production in the United States?

Mr. BENNETT: That is right.

Mr. RYAN: I have one final question, arising out of Mr. Otto's question. Is the old drover non-existent in Canada now? Does he not go and buy up beef on the hoof and hogs at the farm?

Mr. BENNETT: I will answer your question indirectly. The introduction of the purchase of hogs on a dressed basis, together with the fact that the cattle fattening business is now in very large hands, has eliminated to a large extent the need for the kind of service which the drover gave. In the early days he was very essential and a valuable part of the marketing process but that need is not there any more to any degree whatsoever.

Mr. RYAN: Is there still a drover or two carrying on business?

Mr. BENNETT: Yes, there still are some.

Mr. McCUTCHEON: I refer now to Table VI on Hog Prices. Mr. Bennett, our price as of September 1966 is 33.92. That in June of 1965 it started at 34.81. I wonder could you give us any comment, in the light of your answers the other day when I posed the same question—only that I used one specific month for the prices in Toronto. The D.B.S. figures show bacon at 88 cents to 89 cents a pound in 1965. They show $1.19 to $1.29 in 1966. Here we are, over a year of these prices, from $34.81 to as high as $43.19 and down to $33.92. What is the reason?

Co-Chairman Senator CROLL: He has had 15 minutes, Mr. McCutcheon, but I do not think he is caught. That is one of the real questions.

Mr. McCUTCHEON: That is what we are here for.

Co-Chairman Senator CROLL: But I thought you as a farmer would help us out here. It may be that he can.

Mr. BENNETT: I would be prepared to make one general comment, Mr. Chairman. We in Canada are very heavy consumers of bacon. Whenever hogs are in short supply—without trying to define that—and that is the case right now in Canada, we then import considerable quantities of United States bacon. That means simply this, that the prices of bellies in Canada at the present time are strictly on an import basis. That is, their value is based enterely on what bellies cost in the United States, plus all the expense of getting them here, and

that is quite high when you have the exchange working against us. So we are now in an era in which hog marketings are comparatively low and in which there is a heavy demand for bacon in Canada as a result of which bellies are unusually high priced in relationship to other cuts. This may in part answer your question.

Mr. McCUTCHEON: In part.

Mr. BENNETT: In part.

Mr. McCUTCHEON: I think you are right. We had 128.3 thousands of gradings in June 1965, and 132.2 in September 1966, so the product, I would assume, is keeping up with the demand.

Mr. BENNETT: We have some increase in population, and we may be eating a little more.

Mr. McCUTCHEON: Would that account for it?

Mr. BENNETT: Once again I would have to say we are in an area now in which I would have the greatest reluctance to pose as an expert to any degree whatsoever, because this is not an area with which we are familiar or on which we have any statistical data to base any comments. However, I would like to explain the general situation. If you take hams, for example, our ham price, because we are exporting our hams to the United States—and add to that the fact that we are not heavy ham eaters in this country and they are in the United States—our ham price is based on an "export basis." In other words, the price of Canadian hams reflects entirely what you can get for Canadian hams in the United States, less the cost of getting them there; whereas in bacon it is the absolute reverse.

Mr. McCUTCHEON: May I turn to beef for just one moment? Some of our food suppliers—and now I am speaking of restaurateurs, hotels, etcetera—contract for supplies of beef during the year, with the large packing companies. I believe these arrangements are made between the packers quarterly or semi-annually, that type of thing. The prices which you have kindly supplied us, for choice steers, based on Toronto—as given in Table II, show that if you compare the prices there, there are fluctuations but the average is working out pretty close, between 1965 and 1966, at the farm. There is not much spread—it may be a penny a pound.

I am told that the contract price of beef to institutions, like those I have mentioned, is 10 cents to 12 cents per pound higher this year than it was a year ago.

Mr. BENNETT: I have not any detailed knowledge whatsoever. You might be able to find that out from the contracting suppliers, i.e. the packers, if they would care to reveal it.

Mr. McCUTCHEON: Would you care to comment on this statement which has been given to me, that the reason for this increase in price is due to the fact that Canada Packers have been on strike and that it is overtime for labour in the small packing plants that has caused this increase to the trader?

Mr. BENNETT: This could be possible, as you have already stated, but this has not reflected itself in the price to the farmer.

Mr. McCUTCHEON: No.

Mr. BENNETT: I have no definite knowledge of what the situation is.

Mr. McCUTCHEON: On the precipitate change in the price of pork—is there any governmental responsibility in this thing, coming upon us? I have been told that the reason for the precipitate action, unsuspected, was the poor reporting by the United States Department of Agriculture, of the number of hogs on farm, and the intention of farmers.

Mr. BENNETT: The forecasting of livestock production is not an accurate science, because in the process of accumulating the data you cannot visit every person. It is a sampling process.

In addition to that, conditions can change, which will cause quite a drastic reversal in plans on the part of many producers after they reported their intentions.

The long-term record of forecasting in the United States has been quite good. I think that what has happened, sir, is this. Whenever something like this happens, there is a great search for reasons.

Mr. McCUTCHEON: Like here?

Mr. BENNETT: Like here. I did not mean it was in your personal case, but there is always a great search for some reason, and this is one of the reasons that has been given. However, basically, this could not change the pattern very much, because I do not think there is any evidence, over a short period, that the farmer is guided to a great degree by the forecasts which come out, because those forecasts, generally, are published after he has decided what he is going to do.

Mr. McCUTCHEON: That is abundantly true. On this question, Mr. Bennett, you know what we are looking for; can you help us? Can you tell us where we can get the information we want? I would like to refer this question to my Chairman, Senator Croll.

Co-Chairman Senator CROLL: No, no. You are doing fine.

Mr. BENNETT: Well, it seems to me that the farmer is involved, and our basic responsibility in the division in which I operate is to report accurately prices that are received by the farmer and to grade his livestock accurately. Now, as to where you are going to obtain the information you desire, it seems to me that it must come from the people who operate in those areas.

Mr. McCUTCHEON: That is true. I agree with you and I commend you. You have done an excellent job in your department, and have been most helpful, but we are after more than this.

Mr. WILLIAMS: If I could add one word, sir, the only other information available, to my knowledge, is the printed statistics of the Dominion Bureau of Statistics with respect of retail prices.

Co-Chairman Senator CROLL: Mr. Williams, would you from the statistics, relate the evenness of the cost of Choice steers in 1966, and what the price rise has been during that period of time? I have been looking at the statistics, too, and I cannot get that out of them.

Mr. WILLIAMS: As Mr. Bennett pointed out, we are in an inherent difficulty in that we are not dealing with a package, as we were with eggs, poultry, and turkeys. Here we have to deal with a portion of the animal, and the value of different portions at any time may not bear a direct relationship to the value of the carcass. However, I can quote from the price index for the month of July, printed by the Dominion Bureau of Statistics. Table 10 in the July issue of Prices and Price Indexes shows that for the month of June, 1965, the price of sirloin steak in Canada was $1.079 per pound. For the month of July of the same year it was $1.136. For the month of June of this year it was $1.146, and for the month of July it was $1.168.

Co-Chairman Senator CROLL: Mr. Williams, in the month of June of 1966 the price that they paid to the farmer was less than in the month of June 1965.

Mr. WILLIAMS: That is correct, sir, 76c per hundredweight less.

Co-Chairman Senator CROLL: And in July 1966, it was less than in the month of July 1965. Yet it went up in both of those months despite the fact that the farmer got less. How do we reconcile that? What do we say to our

constituents when they ask us that question? Do we say that we went to the department and that they gave us an answer, or what do we say?

Mr. WILLIAMS: I presume, sir, that the only answer is that somebody other than the farmer is getting the difference.

Co-Chairman Senator CROLL: Yes. All right, but who?

Mr. WILLIAMS: We do not have any statistics to indicate which of the agencies be it labour or the packer or the retailer or the trucker. But we do feel that our position is to present evidence as to what the position of the farmer is with respect of this, because we do not have other evidence.

Co-Chairman Senator CROLL: All right. We have exonerated the farmer. There is no problem there. But would you care to point the finger of suspicion some place at least so that we might know where we are searching?

Mr. WILLIAMS: I am afraid I could not point a finger of suspicion, sir, except to point to them all, because I cannot isolate anyone. I have no information on which I can base my finger-pointing.

Co-Chairman Senator CROLL: Mr. McCutcheon.

Mr. MCCUTCHEON: I have just one supplementary question. The price of choice steers, Mr. Bennett, in June of 1965, is $26.86. We do not want to leave a wrong impression here; what is the equivalent of that in dressed weight? The carcass price would be what? What is our average dressed weight?

Mr. BENNETT: I can give you that.

Mr. MCCUTCHEON: I was referring to June, where we have $26.86.

Mr. BENNETT: Choice steers at Toronto will average about 56 to 58 per cent yield. Let's take 57 per cent as an average yield. That means that there would be 570 pounds of carcass out of a 1,000-pound live steer. That is 57 per cent yield. If the packer paid 27 cents alive and got 57 per cent yield, what he calls long cost, without taking overhead or anything else into account would be 47.37. Now, what the carcass would be worth, what the packer would try to sell it for, would first call for some adjustments. In other words, he has all his expenses to add on and he deducts from that the credits which he gets, that is, things other than the carcass. For instance, he gets the hide, the fancy meats, the fat and some blood.

Mr. MCCUTCHEON: Is this a chilled weight?

Mr. BENNETT: This a chilled weight of 57 per cent yield.

Mr. WILLIAMS: That actually is a conversion, sir, of 27 cents on a flat 57 per cent yield. I think that was the question you were asking.

Mr. MCCUTCHEON: That is right.

Mr. WILLIAMS: So, without any of the credits to which Mr. Bennett was referring, without anything of that sort at all, but simply converting live weight to dressed weight, that is $26.86 alive is $47.12 dressed.

Mr. MCCUTCHEON: Right. The 27—

Mr. BENNETT: I was using 27 cents. Mr. Williams is using $26.86.

Mr. WILLIAMS: I was using the figure that Mr. McCutcheon asked about.

Mr. BENNETT: Let us go back for a moment. A steer weighing 1,000 pounds alive, at $26.86, that dresses out 57 per cent, gives a carcass of 570 pounds at a long cost of $47.12. Now the packer would have to add on to that all his expenses, and he would take off that his credits, which include the hide—the main ones would be the hide—and the fancy meats, the fat and some blood. The industry might be prepared to give you some evidence as to what those credits amount to.

Mr. MCCUTCHEON: This might be meaningful.

Mr. BENNETT: This will tell you in a general way that beef what would have to be sold for, if the processor was to make what might be called a normal markup or profit.

Mr. MCCUTCHEON: Thank you.

Mr. OLSON: I have just one supplementary question to Mr. Bennett and Mr. Williams. They say that they do not have the statistics as to what happens to the price between what the retailer gets and what the farmer makes. Just whom do we go to to ask for this information?

Mr. WILLIAMS: The only printed information, or information that I know of that is collected, is collected by the Dominion Bureau of Statistics in their determination of the consumer price index.

Mr. OLSON: Your department does not keep track of what the retailer pays the wholesalers or what is paid anywhere along the line between the live price and the retail price?

Mr. WILLIAMS: We report a sample price of wholesaler to retailer at certain locations. This is not an official price. It is not a weighted average. It is reported in our Livestock and Meat Trade Report, which is published weekly, and Mr. Bennett, I am sure, would be glad to describe to you how this price is arrived at. We do not report any retail prices. We do not collect the retail prices, but this is a sample price of the carcass beef, for example. There are other cuts reported. It is the price from the packer to the retailer. These are quoted prices on a sample basis.

Mr. OLSON: Is there some way we could get at this? In other words, you say you have some samplings. Could we have some samplings taken from exactly the same places the Bureau of Statistics take their samplings for retail prices, so we could follow it right through with exactly the same data in the same location, and find out where the spreads are? If we take a sampling in one city on one item and a sampling in another city on another item, we may not be able to reconcile it.

Mr. WILLIAMS: I am afraid I would have to look into that, Mr. Olson, because I am not fully cognizant with the method by which D.B.S. collects samples. I can give you all the information with respect to our own samplings. I believe it would be possible.

Mr. OLSON: Would you undertake to make such inquiry and find out if we can get some of these samplings taken in the same place at the same time at various levels of prices?

Mr. WILLIAMS: Yes.

Senator MCDONALD: Mr. Chairman, part of the information that I wanted has been given to Mr. McCutcheon and Mr. Olson, but I want to go back to your question to the witness when you asked: Is there any reason for the ever-increasing price of bacon—and I think we can say more than bacon—the ever-increasing price of meats to the consumer when the price to the producer bears no relationship?

I am wondering if we have not the wrong witnesses. To be perfectly fair, the witnesses before us from the Department of Agriculture, it seems to me, their responsibility is to the producer—or, at least, I hope it is. I think they have done a good job in keeping the producer advised as to the supply of agricultural products, not only in our country but in the neighbouring country, especially, to the south of us, and other parts of the world where we are competing in the production of this product.

It has also been their responsibility to keep the Canadian producer advised on the supply of feed and other costs involved in producing a pound of pork or meat, as we are talking about now. I think they have done a good job there too.

Sometimes this information is a little late getting to the producer, but I can understand some of the reasons for this. One of the main problems is our producers have not followed and have not even read the information that has been made available to them over the years.

Co-Chairman Senator CROLL: Senator McDonald, the witness is up here.

Senator McDONALD: Yes. I want to ask the witness a question, but before I do that I think the members of this committee ought to be made aware of the responsibility of the Department of Agriculture, and I do not think their responsibility is to keep the records of the cost of foods to the consumer. I think we have to have a different witness if we are going to get answers to these questions, because the Department of Agriculture does make records available to producers and information, and they do experimental work in grading new types of hogs and beef, and handling and feeding. I want to put on record that I think they—both the federal and provincial Departments of Agriculture—have done an exceptionally fine job, but is it possible for the Department of Agriculture to broaden their field of endeavour and to try to give to the consumer some of the information and protection they have given to the producer? I know this work is done by D.B.S. There are records kept, but there are very few people, including producers and consumers, who follow the information made available by D.B.S. In the Department of Agriculture, have they given any thought to making this information available to the Canadian people?

Mr. WILLIAMS: This is an area in which we try to move and have moved to some limited extent. We have a consumer section that has some responsibility in this area, but its responsibility lies more in the promotion of food rather than in economics or in data reporting. We do, however, publish, I believe—and I would be subject to correction here—on a monthly basis a publication known as "The Food Basket," which goes to mailing list—largely food editors and people of this nature, economists, and you may see it quoted from time to time in the press—in which we endeavour to forecast a month ahead, from the consumer standpoint, the availability of food with some indication of price, not in absolute terms but in terms of, say, whether eggs, for example, will be in good supply and whether prices will be up or down.

Senator McDONALD: But this information goes chiefly to economists and editors of newspapers and magazines?

Mr. WILLIAMS: Its method of distribution at the present time is for use in the public press. It is used to some extent, but it is a rather new venture for us.

Senator McDONALD: How long have you been doing this work?

Mr. WILLIAMS: I am afraid I cannot answer that categorically. I would estimate, for about nine months or a year.

Senator McDONALD: But it is your hope to broaden this work?

Mr. WILLIAMS: I am mistaken. It is about five years, but it changed form some time ago.

Senator McDONALD: But it is in your plans to do more in this field?

Mr. WILLIAMS: That is correct, sir.

Co-Chairman Mr. BASFORD: Mr. Bennett, from Table VI it is apparent there has been a marked decrease in the price of hogs since January to September. Would this indicate that for the future, because of this decrease in price, hog producers are going to go out of production and that the production of hogs will further decrease?

Mr. BENNETT: We are now about at the end of the downward phase of the hog cycle, and there seem to be two or three definite things emerging out of what is taking place.

The first is that we will probably have seen, for some time to come, the end of rapid swings in the hog cycle. In other words, I do not think that in the future we are going to go up very much or down very much during any specific hog cycle. This broad change has been brought about by the fact that there are now outlets for grain, barley and wheat in this country, and there are outlets for corn in the United States. So that farmers are not now, or apt to be in the future, in a position where in order to market grain they are forced to feed livestock. I have not the exact figures, but, for example, I think this will be the third year in the United States in which their usage of corn will be more than their production. The stocks of corn held by the Commercial Commodity Corporation in the United States, as you will recall, were at times in the past released on the market in order to have a more uniform price of corn for feed. These stocks are not available to the same degree, any more.

I think what this is settling down to—to try and specifically answer your question—is an era in which the farmer is going to be able to decide, to a large measure, at what price he will produce hogs, and then may be able to produce within a reasonably narrow range the number that will result in that price range. For example, in the United States it was considered that the break-even point before world war II in the hog-corn ratio was about 12 to one. That is 100 pounds of live hog to 12 bushels of corn. That has moved up to a ratio of around 16 or 17 to one and now, based on information available, it looks as if the U.S. farmer will not produce any sizeable increase in hogs unless the ratio is around 17 to one. If the supply of corn is not such that he has to feed it to hogs in order to market it, we are possibly entering into an era of stabilized production in hogs.

Co-Chairman Mr. BASFORD: Would that indicate that we are going to have, with the rising demand at the consumer level for pork products, further increases in the retail price because of stable production in hogs?

Mr. BENNETT: Perhaps this might be a fair comment; whether it is a high price or a low price from the consumer's viewpoint, we are probably entering into an era where hog prices are going to be continuously higher than they have been over any long period in the past. The trade is now forecasting that there will be, for two years at least, probably 20-cent hogs in the United States. That is, 20 cents alive, and that is getting up to 27 cents or 28 cents dressed. If this proves to be the case the retail level will have to move in relation to that, but whether that will be considered to be too high by the consumers is another question.

Co-Chairman Mr. BASFORD: So you are saying that the forecast is two years of higher hog prices—that is, to the producer?

Mr. BENNETT: Not necessarily higher than what they are now, no, because in Chicago last week they averaged about $31.00. They do not expect hogs to stay as high as $31.00 this fall in Chicago. They are forecasting they will probably drop to about 20 cents alive, which will probably mean around 27 cents dressed.

The big question is, what is going to happen in the future in relation to the price of corn. Is the farmer in the United States going to be wililng to breed sows in large volume if he knows he cannot sell hogs for more than around 20 cents alive in the next two years?

Co-Chairman Mr. BASFORD: I am more concerned with the price of hogs in relation to the price of bacon than to the price of corn.

Mr. LEBLANC: You may be, but the farmer is not.

Co-Chairman Mr. BASFORD: I note that Table VI shows a price in September of $33.92. What is the forecast as to what is going to happen to that price?

Mr. BENNETT: Looking ahead, and accepting the validity of the United States forecast that they do not now expect hogs to drop below 20 cents, give or take a little, this fall—that is, 20 cents alive—and then you add to that the premium we get for Canadian hogs—by "premium" I mean the higher average price due to higher average quality—this would bring us up to 31 or 32 cents for hogs in Toronto this fall.

Co-Chairman Mr. BASFORD: What is going to happen to the price of $33.92?

Mr. BENNETT: We are below that in Toronto this week.

Co-Chairman Mr. BASFORD: So you think—

Mr. BENNETT: Grade "A" at Toronto is still about the same as last week. Based on the situation in the United States to which prices in Canada will be tied almost directly, one would assume that if their predictions and forecasts come true we could still see hogs at the level of 30 to 32 cents this fall.

I wish to repeat that this is, of course, based entirely on what is going to happen in the United States. We will not have any control over it here. I am talking about hog prices to the producer.

Co-Chairman Mr. BASFORD: I take it that your evidence is that the fall—and I would like to include the winter in that—the fall and winter forecast is that hog carcass prices will remain relatively the same and relatively stable?

Mr. BENNETT: Relatively stable and relatively the same, with what you might call a seasonal drop ahead of us.

Co-Chairman Mr. BASFORD: When does that occur?

Mr. BENNETT: That will start very shortly. The sharp increase in the run of hogs in this country generally starts in about the third week in October.

Co-Chairman Mr. BASFORD: Now, the Department does not make, I take it from your evidence, any forecast as to what retail prices might be?

Mr. BENNETT: No, our departmental forecasting is limited entirely to predictions or forecasts of volume, and then an estimate of what this volume will do to price, or as to how it is reflected in price. At all times with respect to price we have to go back and base it all entirely on a very careful analysis of the outlook in the United States.

Co-Chairman Mr. BASFORD: I am a little surprised at that because it seems to me that the forecast of retail prices would have some effect on producer prices, which surely are of vital information to the producer.

Mr. BENNETT: Yes, but the producer is interested basically in the price he receives. This is the important thing to him. Although he may not appreciate the full significance of it, it is a fact that in any forecasting or predictions it is the situation in the United States that is going to determine the basic price to the producer, within certain limitations, and not the retail price in Canada.

Co-Chairman Mr. BASFORD: I see. So, what you are saying is that because of the North American concept of the market the retail price in Canada really has no relevance to the producer price?

Mr. BENNETT: It will have an effect in the short term, possibly, and within a narrow range, but over any length of time, no. It will be the price of hogs in Chicago or in the United States which determines the price that the Canadian farmer is going to receive.

Co-Chairman Mr. BASFORD: So our retail prices in Canada could be either very high or very low, and this would have no effect really on whether our producer prices are high or low?

Mr. BENNETT: Well, we are back into this area in which you are asking us to express our opinion of the relationship between producer prices and retail

prices, and once again the only reply I can give you is that this is an area in which I do not have any specific knowledge whatsoever.

Co-Chairman Mr. BASFORD: I will come back later to that.

Mr. SALTSMAN: Mr. Bennett, if I can pursue the previous questions for a minute I will point out that you have given us some figures that indicate the pricing policies on steers, or the pricing policies on meats, generally, so far as the producer is concerned, and you have told us how the producer is tied into his own kind of market. We have tried to establish a relationship between those prices and the prices that the consumer has to pay for the products. We have not been able to come up with a relationship of that type. Would it be a fair statement to make—and I would solicit your comments on this—that the price to the producer has really very little bearing on the price that is charged to the consumer because, as the senator brought out, how do you account for the continuing rise in the price of bacon at a time when hog prices have not risen very much?

I am not asking you for specific relationships, but can you state generally that these do not bear any close relationship to each other? In other words, the price that is being paid to the producer as against the price that the consumer must pay for those products are not related?

Mr. BENNETT: In a general way over any long period the sum total of all that the retailer pays for pork products will bear a definite relationship to the producer price. I said "over a long period". When you get into shorter terms, or shorter periods, the relationship between the value of the cuts changes due to certain circumstances. I explained that it has changed with respect to bacon, at the present time, in that if we were marketing a large number of hogs here we would probably be exporting bellies, and then the prices on our bellies would be the value of such bellies in the United States less the cost of getting them there.

On the other hand, when there is a short supply of hogs, and due to the fact that we are heavy consumers of bacon, we are now importing substantial quantities of bellies. Therefore, the level of bellies at the present time is based in Canada on the United States price, plus the cost of getting them here, and that cost becomes quite substantial when you consider the 8 per cent exchange, or whatever it is at present. So I think I would phrase it in this way, that during short term periods there will be relationships between the prices of hogs to the farmer and certain cuts for which there does not seem to be any ready explanation.

Co-Chairman Mr. BASFORD: What do you mean by "short"; how short is short?

Mr. BENNETT: Let us say a month to two months.

Mr. SALTSMAN: Is the price governed by what the consumer is able to pay for the product rather than on the basic price of the animal?

Mr. BENNETT: Hogs represent a whole variety of products, and consumer preferences change, consumer demand can change, and certainly the price of any particular product is based on the supply or availability of that particular cut and what the consumer will pay for it.

Mr. SALTSMAN: What the traffic will bear?

Mr. BENNETT: I did not say that.

Co-Chairman Senator CROLL: No, he did not quite say that. Mr. Bennett, let me give the feeling of the committee, as I understand it. Mr. Williams, you promised us some answers today to Mr. Olsen's question.

Mr. WILLIAMS: I said we would do our best to get that information.

Co-Chairman Senator CROLL: We will call you back shortly. If you look at the record, on the first day of the evidence, you also said there was some other information available.

Mr. WILLIAMS: That is correct; that is being prepared.

Co-Chairman Senator CROLL: I think what the committee wants, is the case history of a pig. It is just as simple as that. We want to know the case history of a pig, all the way from the farmer, till it is put on a truck and taken to wherever it goes, and is processed and finally canned, and what each part is worth, and in the end what is being paid for it. That will give us an understanding of what happens to a pig—say six or ten of them. We would like you to obtain that information for us, and since you can do it better than we can, because we have not the facilities. I ask you to do that, Mr. Williams, as urgently as possible, and as soon as you are ready we will hear you on that.

Mr. WILLIAMS: That will be done, sir.

Mr. CAMERON: Mr. Bennett, if I may go from pigs to the cow barn, and discuss beef, may I ask you to compare your Table II, which gives the monthly average of choice steers in Toronto, and also your Chart "B" on per capita consumption. If you look at Table II, you will see that in the period from 1961 to 1965 inclusive there was one peak price of $27.20 in 1962. If you refer to the chart you will see that in that period there was a slight decline in consumption —nothing very drastic. Then for the ensuing period in Table II the price remained fairly stable, and in that same period on the chart we see a steadily rising consumption. Would this not bear out the sort of question Mr. Saltsman was asking, that there is actually no correlation at all between the stock yard price and the price the consumer pays. Can one make that assumption?

Mr. BENNETT: Obviously if you want to make that assumption that is your prerogative, but to answer in general I am quite certain that over any long period there is certainly a very direct relationship between the price the consumer pays and what the farmer gets.

With respect to the fact that we had a steadily rising consumption, this does not seem to be tied to any specific price. If you go back to the year 1962, we assumed at that time that if we marketed—I do not remember the exact figure—but we will use 20,000, a week of Choice and Good combined we would be in position of exporting live slaughter cattle. In other words, our people were not prepared to consume 20,000 Choice and Good carcasses in a week at a price above the United States level. At the present time we are running over 27.00 a week and it is all being consumed in Canada, so there seems to be an increased demand here which does not have much relationship to price at all.

Mr. CAMERON: Well, I would point out on the chart you presented to us that there was an increasing demand up to 1964 and then it levelled off.

Mr. BENNETT: That is right.

Mr. CAMERON: But the line on this chart does not correspond at any point with a chart that would be made of the monthly average price of choice steers.

Mr. MCCUTCHEON: May I make one observation, that there was competition in that period, as I understand this chart, between beef and pork. You will notice that pork prices were high in 1962 and they levelled off during 1963 and 1964, and I would suspect that that might have as much bearing as anything.

Mr. BENNETT: Quite possibly.

Mr. MCCUTCHEON: You will notice that on Table VI.

Co-Chairman Senator CROLL: Gentlemen, are there any further questions at the moment?

Mr. SALTSMAN: I have one short question. I would like to ask Mr. Bennett if he could tell the committee what happens with imported bacon. I am not

particularly experienced in the subject. Some shoppers told me that a while ago there was considerable Danish bacon available in Canada at very low prices, and this particular commodity seems to have disappeared in recent months. Would you comment on this, please?

Mr. BENNETT: We went through a period this summer, starting in June 1965, in which prices were very high on this continent, and during that same period there was not anything in the way of a rise in the same relationship on the continent of Europe. So I think all we could do was to assume that the price relationship between the levels in the two countries made it possible for Denmark to advantageously export canned bacon to this continent. Now, since our hog prices have gone down somewhat and strengthened in Europe, I would think it only natural to assume that this is not a profitable outlet. To my knowledge—and possibly our Assistant Deputy Minister could answer better—I do not think there was any action taken whatsoever on the part of the Canadian Government to regulate or prohibit canned bacon from coming here. Is that right, Mr. Williams?

Mr. WILLIAMS: I know of nothing.

Mr. SALTSMAN: Is there a tariff on Danish bacon coming into Canada? I am talking about finished products.

Mr. WILLIAMS: Yes, the same tariff is applied to all pork products. That is, the most-favoured-nation rate applies.

Mr. BENNETT: It is not quoted in the documentation. We can get it for you.

Mr. J. J. URIE, Q.C.: In response to a question by Co-Chairman Mr. Basford, Mr. Bennett, you gave your predictions based on United States predictions, for prices of hogs in the next few months. Could you do the same for steers, based on your table II and the United States predictions.

Mr. BENNETT: Any general outlook for prices of cattle—I am talking about the price of cattle to the producer—is very optimistic. The cattlemen reduced cow numbers recently, and every piece of beef has to start out as a cow and calf on grass. In other words, you have to have a breeding female, and a calf on grass in order to get a feeder animal to fatten in the feedlot.

We have reduced our cow numbers. This means that the number of cattle available to go into feed lots is down. This means less beef and in a general way higher prices. The industry can not make any rapid adjustments, because if they kept every heifer calf in North America this year, and bred her when she is a year and a half or two years old, by the time a calf is produced and is ready to go into the feed lot, it will be about 1970 before any carcass beef out of this combination can be available for sale. So we are now entering an era in which there will be less beef per capita on this continent between now and 1970 than there has been in the immediate past, and we are certainly going into an era of higher prices.

Mr. URIE: So these monthly figures, September $27.24, are likely to be substantially increased?

Mr. BENNETT: Not necessarily substantially increased, because we have already had quite an increase, as you can see there.

Mr. URIE: Yes.

Mr. BENNETT: The United States people, particularly the trade, think they are entering into an era, give or take a little, of $28 to $30 steers at Omaha. As shown in the evidence given here this morning, then the worst that can happen to Canadian prices is $28 to $30 at Toronto. If our supply is small enough that we do not have to have to export slaughter cattle and we are partially on an import basis, then this should mean higher prices.

I think the main thing is that, so far as the price of finished cattle is concerned, from the producers' standpoint, there is an optimistic outlook.

Senator CARTER: Does your department, out of its experience over the years, have any information as to the impact of meat substitutes? For example, is there a price level somewhere, where people will stop buying ham or beef and increase their purchases of poultry, fish, or some other product?

Mr. WILLIAMS: I would like to answer in a general way by saying that, over the long term, the tendency has been for all to increase. In the short term, there is some substitutability. If beef prices get high and hog prices relatively low, there is some switch in consumption; but over the long term beef has continued to increase, poultry has continued to increase, the other substitute, cheese, has continued to increase. I am talking about per capita consumption, not about the total disappearance.

Senator CARTER: When you are collecting this information which Mr. Olson and others asked for, I wonder if we could have a ratio between retail price and producer price, for the period 1961 to 1966, covering the same period in these charts No. II?

Co-Chairman Senator CROLL: We will be getting that from the D.B.S. Dr. James is arranging to get that.

Mr. BENNETT: Just to add to the information in reply to the last question, prices have varied very considerably in cattle from 1963 to date; and prices of competing products—that is, poultry, pork, et cetera—have also varied. It might be of interest to see how uniform the consumption has been in terms of cattle, in total of choice and good carcasses. Here are the figures for the four quarters in 1963:

20,663
22,425
21,290
21,844

For 1964 the figures were:

23,862
25,001
26,254
24,217

For 1965 the figures:

26,384
25,676
27,280
24,418

For 1966, to date, the figures are:

25,258
27,364
28,542

It has varied very little. During the period in which cattle prices have varied somewhat, hog prices have varied drastically and, as Mr. Davey pointed out the other day, poultry products have also varied in price.

Mr. RYAN: Mr. Bennett, why has there been no consideration of the lamb and mutton situation in Canada and in the United States? Personally, there is nothing I like better than a good Canadian lamb chop.

Co-Chairman Mr. BASFORD: In fairness to the witness, I would say that this point was raised by myself and my co-chairman, and it was concluded that lamb and mutton were not that important a component of the market to be dealt with this morning. Perhaps Mr. Bennett can give you some brief information on that, but the sale of lamb and mutton is not that great.

Mr. RYAN: Along the line that Senator Carter was referring to, is there any hope for it?

Mr. BENNETT: Last year we consumed 2.8 pounds of mutton and lamb combined. Not over 50 per cent of that would be lamb; the balance would be mutton brought in for processing. Out of our total meat consumption of 146 pounds we eat about $1\frac{1}{2}$ pounds of lamb. That is why I took the liberty the other day of suggesting to the chairmen that we do not introduce this subject in view of the overpowering dominance of the other two.

Mr. RYAN: Is there such little hope for increased production of mutton and lamb in Canada?

Mr. BENNETT: The problem is that in Eastern Canada the use of grass for dairying is more attractive than it is for sheep, and in Western Canada the utilization of the grass for beef appears much more attractive to the farmer than for sheep.

Co-Chairman Mr. BASFORD: Mr. Bennett, you discussed earlier the concept of the North American market, and I am very curious because of some additions I have made on Table V to know something further of hog marketings. The total on the North American basis for 1961 amounts to 72 million carcasses and in 1965 to 70 million carcasses, which is a reduction. At the same time our population has gone up in both the United States and Canada, and, presumably, or at least most witnesses would agree, I think, people have more money to spend in the consumer market and are generally living "higher off the hog" as some people say. Surely this decreased North American production has had a very marked effect on prices?

Mr. BENNETT: Well, I think, Mr. Chairman, that that was brought out in several different answers. The sharp increase in price was due primarily to the reduction in numbers, and the reduction in numbers has been brought about primarily because in the fall of 1963 and through 1964 the hog farmer, as a group in North America, did not find hogs profitable, and he cut down on numbers. With respect to what has happened to consumption, we can only assume that the consumer, over the past few years, has had a decided preference for beef and poultry as against pork.

Co-Chairman Mr. BASFORD: But here we see over a five-year period a decreasing North American production for an increasing population. Surely our problem then is to increase hog production.

Mr. BENNETT: Hog production would automatically be increased, if the consumer was prepared to consume larger quantities of pork at a price level that the farmer would consider profitable.

Mr. MCCUTCHEON: It is that simple.

Co-Chairman Mr. BASFORD: But here we have the highest retail prices for hog products, or pork products, than we have had for a long time. Surely, then, this should be reflected in hog prices and production levels.

Mr. BENNETT: As far as production is concerned, the man that decides that is the producer, and he bases his decision on what he is receiving for hogs at the present time, on the predicted price to him for hogs, and on the price of feed grains.

Co-Chairman Mr. BASFORD: I see.

Senator MCDONALD: Could I ask one question? In other words he pays little or no attention to what pork is selling for over the counter?

Mr. BENNETT: Other than, I suppose, if I might be a bit facetious, that what he hears from his wife the same sad tales that other people hear.

Co-Chairman Senator CROLL: It seems to me that he has no bargaining strength, then. You say his wife told him, "I had to pay $1.20 for bacon." And

he says to himself, "I get only 25 cents." There is an awful spread there. Are there no agencies for the purpose of collective bargaining?

Mr. WILLIAMS: I think, sir, that I tried to point out in my presentation earlier this week that, in general, the farmer does not have bargaining power. He simply delivers his product.

The exceptions are where marketing boards have been established and where they control a relatively discreet section of the production. Tobacco is an excellent example of that, where there is bargaining power. They have a marketing board which does have bargaining power because it controls essentially all the flue-cured tobacco grown in Canada. But, in general, marketing boards are negotiating boards which negotiate prices on behalf of the farmer.

However, where you have a relatively compact industry, and I can cite other examples—say, soft fruits from southwestern Ontario—the marketing board is able to negotiate prices for their commodities. I think you will appreciate that the question of fruits and vegetables will be dealt with at a later meeting.

Co-Chairman Mr. BASFORD: Has the Ontario Hog Marketing Board had any effect on prices?

Mr. BENNETT: The Ontario Hog Marketing Board has handled all the hogs now for several years. If you accept the statements made by the officials of that organization, they have had a marked effect. If you listen to some of the comments made by the people who do not view the marketing board with great enthusiasm, you assume that they have reached a different conclusion. I would not be in a position to know whether it has had any definite effect.

Mr. WILLIAMS: I think the problem here is that, while they control hogs produced in Ontario, they do not control hogs produced anywhere else in Canada or in the United States.

Senator MCDONALD: If I may interrupt, what percentage of the total Canadian hog production is produced in Ontario?

Mr. BENNETT: About 40 per cent.

Senator MCDONALD: And they handle all of those hogs?

Mr. BENNETT: They handle all of them.

Senator MCDONALD: Do provinces other than Ontario have boards?

Mr. BENNETT: Manitoba has a board on a voluntary basis, whereas in Ontario it is mandatory for the farmer to sell to the board. In Manitoba the board will handle about 70 per cent. There are no boards in the provinces west of that. There are none in Quebec. There is a board in Nova Scotia and there is one in New Brunswick, but the hogs are very small. I have just one more comment in respect of that—

Mr. WILLIAMS: Excuse me, but Senator McDonald did not quite hear the end of that answer. There is a board in New Brunswick and one in Nova Scotia, and they have a joint selling agency. They have named the same agency as their joint selling agency.

Senator MCDONALD: Are they both compulsory?

Mr. BENNETT: We understand they are compulsory in those two provinces.

Senator MCDONALD: Would it be true to say that 50 per cent of the total is marketed through the marketing board?

Mr. BENNETT: I do not have available here the exact percentage it would be somewhere around 45 to 46 per cent. We can get that for you.

Co-Chairman Senator CROLL: No, we do not need that figure.

Mr. BENNETT: May I add one other comment. There is a limit to which bargaining power can produce results in Canada because of the fact that pork

products are available in large quantities in the United States and can be brought in. Therefore, you can only push Canadian prices to a certain level, regardless of what agency or bargaining power you have at any particular time.

Mr. URIE: The proof of the pudding can be seen in Table VII, where it shows a total of 36 million pounds for imports from the U.S. and other countries.

Co-Chairman Senator CROLL: What did we export?

Mr. URIE: We exported 56 million pounds.

Mr. WILLIAMS: In general, we export high-price cuts and in general we import low-price cuts. The dollar value would show a greater disparity than the figures.

Co-Chairman Senator CROLL: Do you have anything else to ask, Mr. Basford?

Co-Chairman Mr. BASFORD: No, that is fine.

Senator MCDONALD: I have just one more question.

Co-Chairman Senator CROLL: There is one more question. All right.

Senator MCDONALD: In an efficient hog operation today, how many pounds of barley, for the sake of argument, does it take to produce a pound of pork?

Mr. BENNETT: In some of the efficient operations now it is down under three pounds. Let us put it another way, an efficient hog operator tries to make as his goal that including the feed which goes into the sow and the boar it will take not over 900 pounds to produce a pig to market weight.

Senator MCDONALD: How much would it have taken 10 years ago?

Mr. BENNETT: I think all I can say is that it would have taken more. I do not know exactly what the reduction has been.

Mr. WILLIAMS: We can produce records in respect of our Record of Performance Test stations for swine where we have complete feed records back over the years, and we can give you averages of what it costs to feed a hog from weaning weight to market weight.

Senator MCDONALD: Is it true to say that because of the better breeds of hogs that are available today and their ability to convert food to meat, the better housing conditions, less labour involved, the farmer is able to produce a pound of pork much more efficiently today, and if it had not been for all these improvements pork prices in Canada would be much higher?

Mr. WILLIAMS: I would agree wholeheartedly, if you would add to that "feed." That is to say, our rations have improved and our knowledge of hog nutrition over the years has improved as well.

Senator MCDONALD: Who has been responsible for this general improvement?

Mr. WILLIAMS: I think if we had—

Co-Chairman Mr. BASFORD: Former Ministers of Agriculture!

Co-Chairman Senator CROLL: I think perhaps we will leave it at that.

Mr. MCCUTCHEON: Just before you close this section, you asked for the history of the hog, right up. I would just like to comment now that this is an admirable time, and I hope you get right on with this because with the Grey Cup coming up it would be nice if you could arrange for that pigskin in your calculations.

Co-Chairman Senator CROLL: I have asked Mr. Williams to do two things. I have asked him to give us the anatomy of a pig and also the anatomy of a cow so that we will have the picture.

Mr. Bennett, I want to thank you on behalf of the committee for coming. The questions have been rather sharp at times, but that is because we thought you had the answers. We paid you the compliment that you knew your job fairly well. Thank you very much.

We have now Mr. Phillips. He is going to talk to us about tobacco. He will not be long.

I would like to mention that we have a very important meeting this afternoon at 2.30 with the Meat Packers' Council of Canada. I am very anxious to make sure you are here on time.

Mr. McCutcheon: In this same room?

Co-Chairman Senator Croll: Yes, we will be here until the next meeting, when we move to room 356-S.

Mr. C. R. Phillips, Director-General, Production and Marketing Branch, Department of Agriculture: Mr. Chairman, I am going to give you a few figures on the tobacco situation in Canada. The paper that has been given to you is a very brief write-up and has two tables. (*See Appendix 5*).

Table 1 gives you acreage, production, imports, exports and prices of leaf tobacco in Canada. The second table gives you an indication of the quantity of redried leaf tobacco taken for manufacture quarterly and annually in millions of pounds, both flue-cured and all types. If you follow those tables as I go through the written material you will get an idea of the change in prices, the change in usage of tobacco.

Prices. The average price that tobacco buyers have paid for all types of green tobacco in recent years has varied from 45.08 cents per pound in 1963 to 62.88 cents per pound in 1965. Flue-cured tobacco, the predominant type, ranged from 45.94 in 1963 to 64.58 cents per pound in 1965. The 1965 prices were higher than in any previous year.

Supplies. Stocks of flue-cured tobacco as of September 30, 1966, are estimated to be 133 million pounds, redried weight. This is the lowest level of stocks since 1957 and reflects decreased production in 1964 and 1965, together with an increased domestic use. Domestic use of aged, redried flue-cured tobacco has risen from 109.2 million pounds in 1960 to an estimated 128 million pounds in 1966. Present stocks represent 12.5 months' domestic supply at current usage rate.

Imports of tobacco have been between two and four million pounds. Most of the imported tobacco is used in cigar manufacture, with small quantities being used for cigarette manufacture.

The exports of tobacco consist primarily of the flue-cured type, with the United Kingdom being the largest buyer. The amount of tobacco exported in recent years has depended on the supplies available.

Current tobacco crop is considerably higher in 1966 due to an increased acreage of flue-cured tobacco in Ontario. The flue-cured crop is estimated at 203 million pounds. This will meet domestic requirements but will not meet all of the export potential nor allow stocks to be rebuilt to a normal 16-month supply.

In Table 1 you have the figures for production, acreage, yield and for imports and exports, as I indicated. Flue-cured tobacco is the main type most of which is grown in Ontario. The figure for flue-cured of 203 million, I believe that about 95 per cent of that would be produced in Ontario.

Exports in the last two years have been at the highest level, and I understand that there has been an arrangement made with U.K buyers this year whereby they require about 50 million, which is higher than we have exported in the past.

Co-Chairman Senator Croll: Compared to what?

Mr. Phillips: That is over here (indicating), 48 million and 38 million.

Co-Chairman Senator CROLL: You said the U.K. would want 50 million?

Mr. PHILLIPS: Yes, and the bulk of the exports are to the U.K.

Co-Chairman Senator CROLL: That is because of Rhodesia?

Mr. PHILLIPS: Yes, because of the Rhodesian situation.

That is all I have in a formal way, Mr. Chairman. If I might make one other comment, as indicated on Table 2, the matter of green weight and redried weight, the conversion factors are at the bottom. Flue-cured tobacco and redried has 90 per cent of the weight of green tobacco.

Co-Chairman Senator CROLL: Has there been any recent increase in the price of cigarettes? I do not smoke cigarettes.

Mr. McCUTCHEON: Three this year.

Co-Chairman Senator CROLL: You take him for examination then.

Mr. McCUTCHEON: Early this year cigarettes were—I have forgotten the price, but they advanced two cents. This was prior to the imposition of the increased sales tax in the Province of Ontario. They advanced them again, and have advanced since again.

Co-Chairman Senator CROLL: Is that correct, Mr. Phillips?

Mr. PHILLIPS: I believe this is correct, yes. I do know that the provincial sales tax was changed this year. As a matter of fact, it was changed twice in the year, they changed the method of application of the tax.

In one case they raised it, and in another case they cut it in half. I do know too from purchasing cigarettes that they have gone up twice in this year. I can tell you that the price to the grower is about 10.3 per cent of the retail price.

Co-Chairman Senator CROLL: The price to the producer is 10.3 per cent of the sale price to the consumer?

Mr. PHILLIPS: That is right.

Co-Chairman Senator CROLL: So there is 90 per cent in there some place—or almost?

Mr. PHILLIPS: That is right.

Mr. McCUTCHEON: In other words, the increase to the producer of this particular commodity would be infinitesimal? It would not necessarily be reflected in the retail price?

Mr. PHILLIPS: In terms of an increased price to the grower?

Mr. McCUTCHEON: Yes, when it is only 10 per cent of the ultimate sale price of the product.

Mr. URIE: But the grower's price has increased by $5—

Co-Chairman Senator CROLL: I look at Table 1 and see that the farm price, green weight—this is the grower's price?

Mr. PHILLIPS: That is the grower's price for tobacco, green weight, and to get the re-dried weight the manufacturer has to subtract a tenth. In other words, the re-dried weight is 90 per cent of the green weight. There is a further weight loss by the manufacturer. If you wish to get into detail, the number of cigarettes that can be manufactured from one pound of green tobacco is 310. The retail price of 310 cigarettes, including the tax, is about $6.32.

Mr. McCUTCHEON: That includes the tax, Mr. Phillips?

Mr. PHILLIPS: Yes, that includes the tax. The federal excise tax on 310 cigarettes is $1.55. There is an 11 per cent federal sales tax which is applied—it does not mushroom; it is applied only on the manufacturer's price, and it amounts to about 20 cents. The provincial tax at January 1, 1966 was one-twentieth of a cent per cigarette, and that was changed on April 1 to one-tenth of a cent per cigarette.

Co-Chairman Senator CROLL: That makes 31 cents.

Mr. PHILLIPS: Yes, in that case, so the total taxes on that amount of $6.32 would be $2.06, and that is about 32.6 per cent of the retail price.

Co-Chairman Senator CROLL: And a pound of tobacco costs what?

Mr. PHILLIPS: A pound of tobacco, green weight, would cost on the average about 64½ cents. I am referring to flue cured tobacco, which is the type used in cigarette manufacturing.

Co-Chairman Senator CROLL: So 64 cents is the cost, and he gets out of it $4.26; is that right?

Mr. PHILLIPS: I was going to go on here.

Co-Chairman Senator CROLL: Go ahead.

Mr. PHILLIPS: I have given you now the total taxes, which amount to $2.06 or about 32.6 per cent. The manufacturer's price varies somewhat. I understand it is about $5.80 per thousand, which would be $1.80 for the 310 cigarettes, and that comes to $3.86. I have no information on the spread between the $3.86 and the $6.32, but we can assume that it is caused by processing costs, the margin for the processor, and the retail mark-up.

Co-Chairman Senator CROLL: Mr. Phillips, I appreciate that you have no information on it at all, but you are a normal man who has curiosity. Did you not ever ask the question: How much do you get? And have you not received some answers? You are not a sworn witness, so give us the best of your recollection for our guidance.

Mr. PHILLIPS: A recollection of how I think?

Co-Chairman Senator CROLL: Yes. You are the expert. Just tell us what you think of it. You are advising friends here.

Mr. PHILLIPS: If you want me to expose myself on cigarettes I will tell you what I think, and that is that I am a damned fool for smoking them. Because of that I am less interested in what the costs are between here and there. It is just foolishness to smoke.

Now, to be serious, in this tobacco area we have no responsibility whatsoever in terms of legislation or programs, or even in respect of the grading and inspection of tobacco. In Ontario flue cured tobacco is sold by the Ontario Farm Products Marketing Board, and there is a Flue Cured Tobacco Growers' Marketing Board. They auction tobacco at three auction warehouses, but in the last two years it has been sold at auction without any rider as to minimum price, and so on.

You will be interested to know, as was indicated by Mr. Williams, that this board has complete control over the flue cured tobacco produced in Ontario. It allocates acreages, and keeps a check on the production of tobacco. Pretty well all cigarettes manufactured in Canada are made completely of Canadian tobacco. There are differences where a little bit of Turkish tobacco is brought in to be used in blends.

At one time we did inspect grades of tobacco on behalf of Ontario when this operation first started, but three years ago they took it over themselves. So, we have not had any responsibility since then, except to keep a record in terms of what the producer is receiving. We have no information on costs of manufacture of cigarettes, and I have not thought of them, Mr. Chairman, in terms of sufficient interest, to determine what those costs are.

Co-Chairman Senator CROLL: I do not take an outside view, but I am a little disturbed when I see an announcement by one of the largest firms in Canada to the effect that its profits have jumped 29 per cent this year, and to see them doing a little boasting about that fact. The price has gone up, as Mr. McCutcheon has pointed out, in the course of a year, and that is a matter of concern to us.

Mr. McCUTCHEON: Mr. Phillips, I do not want to get into a long list of figures, but 310 cigarettes—

Mr. PHILLIPS: That is approximate, now.

Mr. McCUTCHEON: Yes, that is right—are manufactured from one pound of flue cured tobacco on a dry basis, on which the processor gets 64.2 cents, or 65 cents. That is on a re-dried basis?

Mr. WILLIAMS: No, he is paid on the green weight.

Mr. McCUTCHEON: I am talking about the manufacturer now.

Mr. PHILLIPS: Yes.

Mr. McCUTCHEON: This is why I am asking this again, because I am not sure that I have these figures down correctly. The re-dried weight is 90 per cent of the green weight?

Mr. PHILLIPS: Yes.

Mr. McCUTCHEON: So the price that you have here for flue cured tobacco is 64.5 cents?

Mr. PHILLIPS: Yes, and the re-dried is in the 70-cent range.

Mr. McCUTCHEON: This is the point. So, it is 70 cents?

Mr. PHILLIPS: Yes, it is divided by 9, and it comes out to 70 cents.

Mr. McCUTCHEON: This retails at $6.32, of which $2.06 is federal and provincial tax?

Mr. PHILLIPS: Yes.

Mr. McCUTCHEON: Which means that a 70-cent article in the hands of the manufacturer sells for $4.26 when it reaches the retailer's shelf? It is multiplied six times in the process. Doesn't this look pretty big?

Co-Chairman Senator CROLL: Your arithmetic is perfect, Mr. McCutcheon.

Senator McDONALD: So is your deduction.

Mr. McCUTCHEON: Thank you, I did not expect to have commendation from that quarter.

Mr. PHILLIPS: By way of comment, I guess that is because of my reaction as expressed here, that is, that is one reason the taxes are three times what the farmer is getting. In other words, it is a luxury item and not considered a necessity, and we have these taxes of $2.06.

Mr. McCUTCHEON: This industry which is at the producing level now, had a tough time a couple of years ago, as I recall, but apparently production is pretty heavy at the moment. As Mr. Williams pointed out, they have a closed shop arrangement on production, so the producers are doing fairly well. However, I think the manufacturers are doing considerably better in this particular instance. Are we going to have some of them before us, Mr. Chairman?

Co-Chairman Senator CROLL: Well, you are on the steering committee, and you probably know. However, this is historical. The conclusion you reached will have the tobacco companies clamouring to be heard about something or another, and so we will hear them.

Are there any further questions on this? You have a witness here who is an expert and able to provide the answers.

Mr. RYAN: I would like to ask the witness what the factors were that brought about the big reduction in 1964 and 1965. Look at Table I on flue cured, particularly.

Mr. PHILLIPS: Do you want to know the factors that brought about the reduced production?

Mr. RYAN: Yes, in 1964 and 1965.

Mr. PHILLIPS: And you are referring to the reduced production?

Mr. RYAN: The reduced acreage.

Mr. PHILLIPS: If you are talking about acreage, the reduction in acreage was entirely the result of the action of the Flue-Cured Tobacco Marketing Board. They took the decision to reduce the acreage in terms of price. They thought they would get a higher price for their production.

Co-Chairman Senator CROLL: In 1966 it suddenly jumped from 93,000 to 123,000 acres. Did they change their mind?

Mr. PHILLIPS: They changed their mind because the price had gone up. They knew there was an increased opportunity for selling stocks. It is normal to hold a supply of about 16 months in stock, so they increased the acreage. This year they increased the acreage. It was a combination of those two things, plus the fact that they had an undertaking from buyers in the United Kingdom to take 50 million lbs. because of the Rhodesian situation.

Senator CARTER: To follow that up, what is the marketing board competing against, what are the competitive factors that will keep them at a certain level? They were able to increase the price from 45 to 62 per pound. Why didn't they go up to 72? There must have been some factor.

Mr. PHILLIPS: The factors are these: Providing they are only interested in producing enough tobacco to supply the domestic market, they can set their acreage at a level. What they are interested in is supplying that market, plus exports. Therefore, the world price affects the price they can get on that export; but they have a closed shop in terms of Canada because of tariff barriers—the level of tariff, but they do want to export. Now, with the Rhodesian situation there is that opportunity to increase their exports into the United Kingdom, and this is the problem of the board to determine whether to get a higher price on a smaller volume or just what action to take.

Mr. McCUTCHEON: Would it not be fair to say that we had originally lost a large share of that market to Rhodesia?

Mr. PHILLIPS: Going back historically, this could well be. Certainly Rhodesia in recent years has increased its production tremendously, and is selling a large volume in the United Kingdom. As a matter of fact, there were arrangements between buyers in the United Kingdom and the Rhodesian growers board.

Senator CARTER: Is there a very heavy protective tariff?

Mr. PHILLIPS: The British preferential tariff is 20 cents per pound on cigarette type tobacco, unstemmed and burley: stemmed is 30 cents per pound. Most Favoured Nation is similar, that is, for Canada's imports. By special arrangement with New Zealand and South Africa those tobaccos can come in free, but there is very little produced there and coming in to this country.

The United States duty on stemmed tobacco is 50 cents, compared with 30 cents in Canada; and the United Kingdom tariff, that is, British preferential tariff, is $10.40 per pound, but this includes excise. This is tariff here in Canada, distinct from Canada's excise tax.

Co-Chairman Senator CROLL: Mr. Joyal?

Mr. JOYAL: I am wondering if you have the record of the price index or the price to the producer of tobacco in years prior to 1961. We have been using, as you know, a lot of indices based on 1949.

Mr. PHILLIPS: I have not that with me, but I can obtain it for you.

Mr. JOYAL: The same question I should have asked Mr. Bennett earlier. Perhaps Mr. Williams will take note. In the case of hog and beef prices, most of the figures provided to the committee this morning deal with price averages since 1961, and I was wondering if tables could be provided for the indices dating back from the base year 1949.

Mr. WILLIAMS: I don't think there would be any difficulty in obtaining that. Are you speaking of producer prices?

Mr. JOYAL: Yes, strictly.

Co-Chairman Senator CROLL: Anything further?

Mr. URIE: You may have answered this, Mr. Phillips, and I may have missed it. You gave the manufacturers price at approximately $1.80, that is, to whomever purchases from him 310 cigarettes.

Mr. PHILLIPS: Yes.

Mr. URIE: The ultimate price to the consumer is $6.32, leaving a difference of $4.52, which according to my mathematics is something well over 100 per cent. The mark-up is going to someone, or some persons, corporations, etc., between the time it leaves the manufacturer and reaches the consumer. Have you, from your knowledge, any indication of the number of hands through which the manufactured goods pass before reaching the ultimate consumer?

Mr. PHILLIPS: I have not precise knowledge, but they pass from manufacturers to jobbers or wholesalers before going to retailers.

Mr. URIE: To your knowledge, do any of the manufacturers deal directly, sell directly, to the retailers?

Mr. PHILLIPS: I do not have that information.

Mr. JOYAL: Have you any information as to packaging costs of the manufacturer?

Mr. PHILLIPS: Neither have I any information on that. I want you to understand that this is information, that I gave you here in later testimony, that we picked up, trying to be helpful. They are not precise figures, except as they relate to taxes.

Mr. URIE: Do you know if the $1.80 at which the manufacturer sells 310 cigarettes includes the packaging, or is that in bulk?

Mr. PHILLIPS: I would take it that it includes packaging. This price was given me by the excise men, as approximately the price that they sell cigarettes at, and I picked it up within the Government service.

Mr. URIE: That is where the 11 per cent comes in?

Mr. PHILLIPS: Yes.

Senator CARTER: As a matter of interest, since we have an expert before us, in regard to the warning to the consumer of tobacco, what is the impact of these anti smoking announcements?

Mr. PHILLIPS: I can give you that precisely here from another table. The way this is measured is that cigarettes are taken as tax paid withdrawals. In 1961 the figure was 36.7 billion pieces. By the end of 1965 it had progressed, initially slowly, upwards and had reached 43.0 billion pieces. So it does not seem to have had much effect in the long run in stopping those of us who smoke, from smoking.

Co-Chairman Senator CROLL: Of course we are really talking out of both sides of our mouth. We can use that money: if they kill themselves, that is up to them, though we would not like them to do that.

Mr. URIE: Mr. Phillips, if one pound produces 310 cigarettes, for the purpose of enlightening the consumer ultimately on this matter, could you prepare a breakdown figure, based on a carton of cigarettes, which is the usual 200 cigarettes?

Co-Chairman Senator CROLL: What are you getting at?

Mr. URIE: The relative figures in terms of price per carton would be more readily understood by the public, in terms of 20 or 25, or a carton of 200. Most

people buy them in cartons and we could calculate the figures precisely as to what the manufacturer passes on, on a unit of 200 cigarettes. Would that be possible?

Mr. PHILLIPS: That is why I gave percentages. No matter what the size of the package, it is 12.3 per cent.

Mr. WILLIAMS: It is a question of dividing by 20 thirty-firsts.

Co-Chairman Senator CROLL: Mr. McCutcheon put his finger on it for the committee and got the picture on the record. He emphasized it and spoke for all of us, and understood what was happening.

Senator O'LEARY (*Antigonish-Guysborough*): This is important from the point of view of consumer education. Last week, I purchased cartons of cigarettes at $3.79, $3.55 and $3.49. This represented a 30 cents spread in one instance and a 20 cents spread in another. This price would be correct at about 45 cents less, or 45.87, so there is some consumer education here. There is a saving to be effected, depending on where you buy them.

Mr. PHILLIPS: This was based on the per pack price.

Mr. JOYAL: Not on what one would pay in a night club.

Mr. PHILLIPS: What you pay over the counter in a cigarette store, not on what you pay per carton nor on what you pay in a supermarket as a loss leader.

Co-Chairman Senator CROLL: I cannot see that the education is having much effect if the consumption increased from 36.7 in 1961 to 43.0 in 1965, those figures representing billion pieces. We are shouting as to how poisonous this is, but we have not got it on the package. I notice that the Americans indicate on the package that the cigarette is not good for you, yet their figures have grown at about the same rate?

Mr. PHILLIPS: I would have thought so.

Senator O'LEARY (*Antigonish-Guysborough*): The notice says that they may be injurious.

Co-Chairman Senator CROLL: Gentlemen, we have had the evidence and you have had your opportunity of questioning Mr. Phillips. Thank you very much, Mr. Phillips, for coming and presenting to us the information that is available. We appreciate it very much and it is helpful to us. You have presented the problem in such a way that we can fully understand it. Thank you.

Mr. PHILLIPS: Thank you, sir.

Co-Chairman Senator CROLL: This meeting is being adjourned at this time and we will notify you as to the next meeting. In any event, if there is no meeting this afternoon we will meet on Tuesday next.

The committee adjourned.

APPENDIX "4"

TABLE I

CATTLE MARKETINGS

Canada	1961	1962	1963	1964	1965	1966
	Weekly Average Inspected Slaughterings					
	No. of head					
January	37,940	37,804	39,554	44,588	52,688	55,674
February	35,412	36,785	39,689	42,930	47,444	49,974
March	33,703	37,127	38,582	39,623	45,904	50,467
April	38,213	36,062	38,210	42,264	45,210	48,957
May	37,287	38,216	40,966	42,643	48,228	51,428
June	40,539	38,861	40,192	45,817	49,683	50,871
July	42,305	39,536	39,224	44,349	53,156	50,701
August	42,236	40,790	40,719	48,123	54,995	50,001
September	43,870	41,026	44,179	51,091	59,180	51,945
October	43,690	41,890	42,889	50,911	61,332	
November	43,623	45,106	48,194	53,288	64,465	
December	33,631	35,647	38,832	52,644	50,129	
Year	39,259	39,002	40,897	46,580	52,585	
Total Slaughter	2,041,473	2,028,159	2,126,716	2,422,260	2,734,514	

U.S.A.	1961	1962	1963	1964	1965	1966
	Weekly Average Inspected Slaughterings					
	– 000 –					
January	408.0	445.2	448.8	503.2	541.5	576.2
February	358.8	366.8	389.8	427.5	479.8	509.2
March	325.4	329.8	338.8	375.4	445.2	446.4
April	375.5	380.5	431.8	511.2	505.2	525.8
May	438.5	441.5	468.8	517.5	510.8	562.2
June	357.0	359.6	350.4	441.4	443.8	479.4
July	407.0	441.2	459.5	540.5	559.5	559.0
August	450.8	467.5	475.0	531.2	584.2	624.2
September	342.4	330.8	365.8	439.8	481.2	482.4
October	454.2	474.5	523.0	589.3	597.5	
November	420.8	421.5	448.2	527.8	583.5	
December	317.8	312.4	361.6	450.8	462.8	
Year	384.0	391.1	416.6	483.3	511.8	
Total Slaughter	19,968.0	20,339.0	21,662.0	25,133.0	26.614.0	

TABLE II

PRICES FOR CHOICE STEERS

Toronto	Monthly Average Choice Steers					
	1961	1962	1963	1964	1965	1966
	$	$	$	$	$	$
January	24.76	26.62	26.02	22.91	23.56	27.74
February	24.32	25.18	24.26	23.54	22.60	28.72
March	24.03	24.86	23.40	23.85	24.00	28.32
April	23.43	25.25	23.80	24.25	24.00	27.37
May	23.23	25.57	24.25	24.25	24.91	26.85
June	22.47	26.38	24.78	24.25	26.86	26.08
July	22.22	27.84	26.89	24.78	26.84	25.64
August	22.65	28.61	27.00	24.25	26.28	25.56
September	24.08	29.36	26.60	24.26	25.67	27.24
October	25.50	29.50	24.81	23.70	25.50	
November	25.49	29.46	24.50	23.26	26.06	
December	26.78	28.27	23.74	23.50	26.79	
Year	24.20	27.20	25.05	24.05	25.20	

Omaha	Monthly Average Choice Steers					
	1961	1962	1963	1964	1965	1966
	$	$	$	$	$	$
January	26.74	25.76	26.49	22.20	22.98	25.91
February	26.15	25.95	24.47	21.36	22.53	27.16
March	25.52	26.36	22.88	21.38	23.17	28.25
April	24.87	26.81	23.10	20.88	24.38	26.94
May	23.22	25.50	22.27	20.28	26.00	25.94
June	22.42	25.07	22.52	21.25	26.69	25.25
July	22.34	25.68	24.57	22.69	26.05	25.27
August	23.87	27.41	24.40	24.73	26.28	25.76
September	23.78	28.83	23.98	24.75	26.19	25.75
October	23.96	28.46	23.74	23.66	25.33	
November	24.83	29.12	22.92	23.45	24.93	
December	25.51	28.12	21.64	22.79	25.38	
Year	24.43	26.92	23.58	22.41	24.99	

TABLE III

Exports of Beef and Veal—lbs.[1]

	To U.S.	To Other Countries	Total
1961	29,033,800	2,205,900	31,239,700
1962	19,726,000	2,031,000	21,757,000
1963	17,228,300	2,691,700	19,920,000
1964	28,529,500	5,712,600	34,242,100
1965	71,992,800	10,711,700	82,704,500

Note: Preliminary figures for exports to the U.S. to September 3, 1966, show a total of 46.6 million lbs. compared with 35.7 million lbs. for the same period in 1965.

Source: Trade of Canada Exports.

Imports of Beef and Veal—lbs.[2]

	From U.S.	From Other Countries	Total
1961	17,485,600	23,697,000	41,182,600
1962	16,082,800	29,234,300	45,317,100
1963	15,365,800	33,864,200	49,230,000
1964	16,508,400	19,457,100	35,965,500
1965	12,395,500	14,686,500	27,082,000

Source: Trade of Canada Imports.

(1) Exports include beef and veal, fresh and frozen; beef cured.

(2) Imports include beef and veal, fresh and frozen; beef cured; beef and veal canned; corned beef canned.

Exports and Imports of Live Cattle, Canada—U.S.A.

	Number of Head				
1. Exports to U.S.	1961	1962	1963	1964	1965
Cattle—Purebred and Dairy	37,213	32,731	28,576	30,646	34,020
Cattle N.E.S.—200–700 lbs.	332,267	342,267	155,876	87,900	356,929
Cattle N.E.S.—over 700 lbs.	97,111	72,966	52,425	47,004	141,088
Total	466,591	448,471	236,877	165,550	532,037
Slaughter Calves	28,699	36,451	35,194	48,873	60,763

Source: Trade of Canada Exports.

Imports of Slaughter Cattle from the U.S.

1961	395 head
1962	1,339 "
1963	303 "
1964	30,878 "
1965	nil "
1966	487 "

Source: C.D.A.

TABLE IV

CHOICE AND GOOD BEEF CARCASSES

	1950	1962	1963	1964	1965	1966
						(8 mths.)
Choice	77,821	649,670	779,192	915,514	900,466	595,967
Weekly Av.	1,496	12,494	14,984	17,606	17,317	17,528
%	6.1	32.0	36.6	37.8	32.9	34.4
Good	137,803	302,174	328,761	400,098	448,405	315,937
Weekly Av.	2,650	5,811	6,322	7,694	8,623	9,292
%	10.7	14.9	15.5	16.5	16.4	8.2
Choice and good	215,624	951,844	1,107,953	1,315,612	1,348,871	911,904
Weekly Av.	4,146	18,305	31,307	25,300	25,940	26,821
%	16.8	46.9	52.1	54.3	49.3	52.6
Balance	1,069,059	1,076,315	1,018,763	1,106,648	1,385,643	821,725
Weekly Av.	20,559	20,698	19,592	21,282	26,647	24,168
%	83.2	53.1	47.9	45.7	50.7	47.4
Total Kill	1,284,683	2,028,159	2,126,716	2,422,260	2,734,514	1,733,629
Weekly Av.	24,705	29,003	40,898	46,582	52,587	50,989
%	100.0	100.0	100.0	100.0	100.0	100.0

TARIFF RATES ON LIVESTOCK AND MEATS

	Unit	U.S. Rate on Imports from Canada	Canada Rate on Imports from U.S.	Canada Rate on Imports from Australia & N.Z.
Livestock, purebred for breeding		Free	Free	Free
Cattle, Slaughter-feeder, under 200	lb.	1½¢ in quota of 200,000 fiscal yr. 2½¢ over quota	1½¢ no quota	Free
Cattle, Slaughter-feeder, 200–699 lb.	lb.	2½¢	1½¢	Free
Cattle, Slaughter-feeder, 700 lb and over	lb.	1½¢ in quota of 400,000 fiscal yr. maximum 120,000 head per qtr. 2½¢ over quota	1½¢ no quota	Free
Cattle, dairy cows, 700 lbs. and over	lb.	1½¢	1½¢	Free
Beef and Veal, fresh or frozen	lb.	3¢	3¢	3¢
Hogs, live	lb.	1¢	1¢	Free
Pork, fresh or frozen	lb.	1¼¢	1¼¢	1¼¢
Bacon and Hams	lb.	2¢ unboned 3¢ boned	1¾¢	Free
Sheep and Lambs	head	75¢	$2.00	Free
Mutton, fresh or frozen	lb.	2½¢	6¢	½¢
Lamb, fresh or frozen	lb.	3½¢	6¢	½¢

TABLE V

Hog Marketing

Canada	Weekly Average Gradings					
	1961	1962	1963	1964	1965	1966
	- 000 -					
January	119.4	144.2	119.9	141.0	150.2	120.3
February	120.2	140.7	125.2	146.8	146.4	129.7
March	124.8	144.6	130.5	137.2	153.6	138.2
April	133.4	138.7	128.4	150.0	148.3	132.8
May	118.0	126.9	122.9	135.0	141.5	126.4
June	113.5	116.5	117.1	130.5	128.3	121.0
July	110.0	105.3	110.5	121.5	124.7	117.0
August	111.1	108.3	112.9	123.4	124.6	124.2
September	125.1	117.2	126.3	135.2	129.5	132.2
October	137.5	130.6	140.1	141.7	131.8	
November	147.8	135.3	142.4	153.8	135.2	
December	128.4	116.4	128.5	162.7	121.8	
Year	124.0	126.8	125.4	140.0	136.1	
Total Gradings	6,449.0	6,593.9	6,520.8	7,281.6	7,077.1	

United States	Weekly Average Inspected Slaughter					
	1961	1962	1963	1964	1965	1966
	- 000 -					
January	1,436.0	1,524.5	1,583.2	1,739.0	1,511.8	1,179.8
February	1,269.5	1,328.0	1,416.2	1,474.5	1,325.2	1,162.5
March	1,222.0	1,245.0	1,311.8	1,284.0	1,306.8	1,161.2
April	1,262.2	1,418.0	1,585.8	1,620.2	1,450.5	1,325.8
May	1,399.2	1,450.0	1,477.5	1,369.0	1,179.8	1,228.2
June	1,081.6	1,008.2	976.0	1,007.6	943.4	934.4
July	1,080.0	1,174.8	1,248.8	1,232.0	1,107.2	1,057.0
August	1,278.5	1,303.5	1,293.5	1,210.2	1,187.5	1,272.0
September	1,048.0	947.4	1,173.6	1,126.0	1,095.0	1,175.4
October	1,555.8	1,660.8	1,693.8	1,701.0	1,355.2	
November	1,581.8	1,594.0	1,594.8	1,636.5	1,375.8	
December	1,147.6	1,190.8	1,339.0	1,329.6	1,002.0	
Year	1,262.2	1,303.3	1,376.5	1,378.2	1,225.2	
Total Slaughter	65,632.0	67,770.0	71,577.0	71,667.0	63,708.0	

TABLE VI

HOG PRICES

Toronto	Monthly Average Price—Grade "A" Carcasses					
	1961	1962	1963	1964	1965	1966
	$	$	$	$	$	$
January	30.06	26.63	30.27	26.85	27.44	42.73
February	29.50	26.83	29.89	27.61	28.23	43.19
March	27.28	26.88	26.89	25.92	27.80	36.12
April	25.38	27.23	24.25	25.38	27.94	32.90
May	27.05	27.92	26.49	26.40	30.46	36.83
June	29.53	31.09	29.55	29.08	34.81	38.29
July	29.89	33.07	29.96	28.41	36.24	35.12
August	28.84	32.80	28.99	28.10	36.66	33.98
September	29.40	30.60	28.60	28.24	36.88	33.92
October	28.67	29.59	26.57	27.13	35.90	
November	27.61	30.30	26.32	27.12	37.58	
December	27.16	30.42	26.88	27.63	41.64	
Year	28.30	29.60	27.80	27.30	33.40	

Chicago	Monthly Average Price Nos. 1, 2 and 3 Barrows and Gilts (Live Prices Converted to Dressed Equivalent on a Basis of 75 Percent)					
	1961	1962	1963	1964	1965	1966
	$	$	$	$	$	$
January	24.04	23.49	21.72	20.52	22.69	38.89
February	24.72	22.72	20.69	20.37	23.49	38.31
March	23.88	22.25	19.15	20.11	23.49	33.60
April	23.47	22.08	18.96	19.87	24.51	31.45
May	23.04	21.63	20.93	21.13	28.21	33.04
June	23.36	23.68	23.77	22.45	32.28	34.52
July	24.41	25.13	25.21	23.88	33.12	34.24
August	24.61	25.12	23.65	23.36	33.47	35.16
September	24.44	25.47	21.57	23.04	31.17	32.33
October	23.20	23.03	21.08	21.41	32.13	
November	22.07	22.91	20.21	20.40	33.75	
December	33.19	22.75	20.21	21.97	38.39	
Year	23.71	23.36	21.43	21.55	29.72	

TABLE VII

EXPORTS AND IMPORTS OF PORK 1960–1965

1. Exports[1]	To U.S.	To Other Countries	Total
		– 000 lbs. –	
1960	45,098	24,592	69,690
1961	43,372	12,586	54,958
1962	44,291	4,364	48,655
1963	44,335	3,904	48,239
1964	48,320	6,017	54,337
1965	53,308	3,571	56,879

SOURCE: Trade of Canada—Exports.

2. Imports[2]	From U.S.	From Other Countries	Total
		– 000 lbs. –	
1960	17,012	49	17,061
1961	40,630	23	40,653
1962	34,399	64	34,463
1963	87,553	934	88,487
1964	52,551	63	52,614
1965	27,505	9,101	36,606

SOURCE: Trade of Canada—Imports.

[1] Includes: Pork—fresh or frozen; Bacon and sides, cured; Pork cured N.E.S.; Boiled Ham, cooked; Hams canned; Pork canned.

[2] Includes: Pork—fresh or frozen; Pork cured, including salted.

CHART "A"

CATTLE ON FARMS, 1931 - 1965

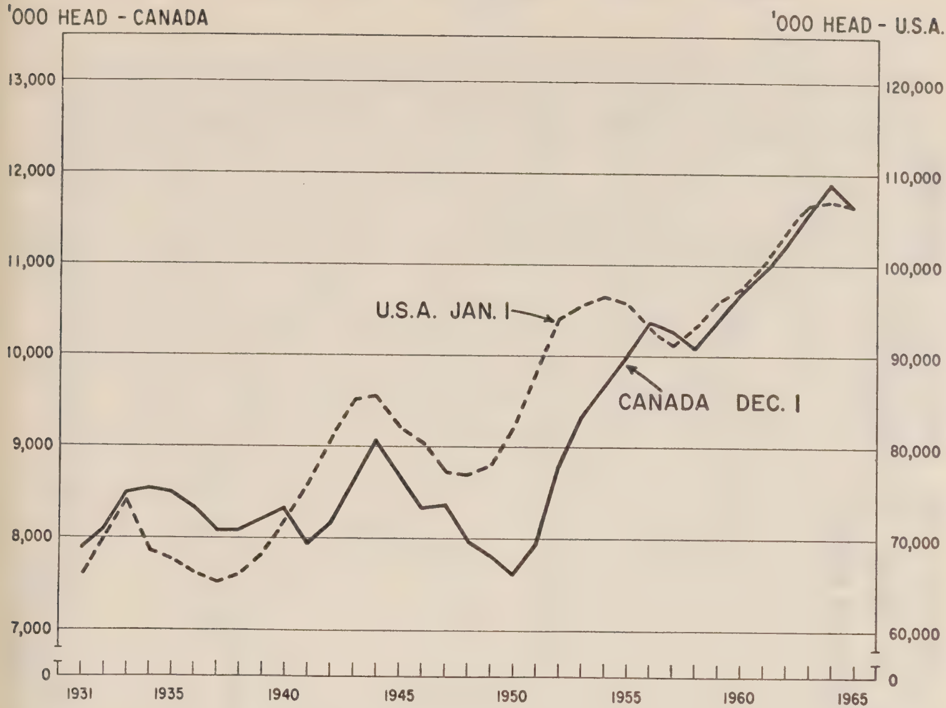


CHART "B"

PRICE PER HUNDREDWEIGHT OF CHOICE STEERS AT TORONTO & OMAHA

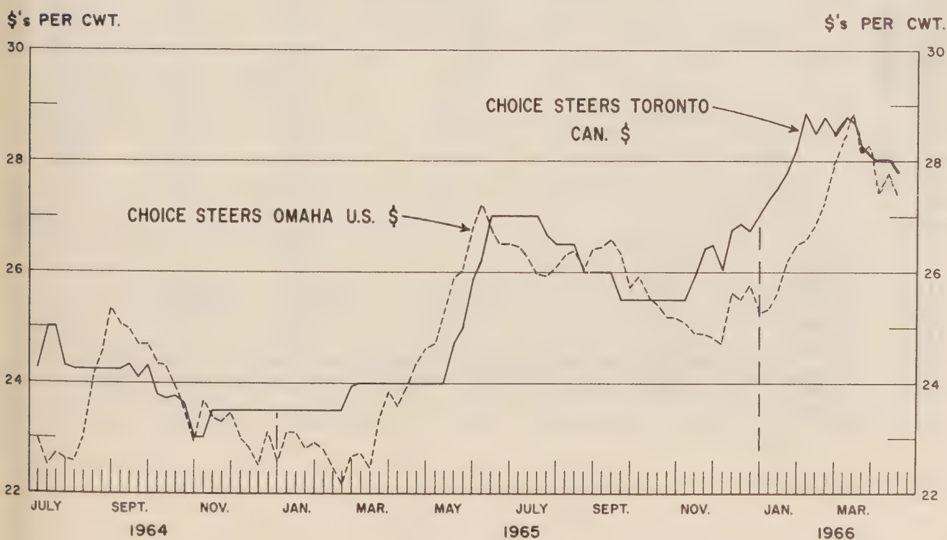


CHART "C"

PRICE PER HUNDREDWEIGHT OF GRADE "A" HOGS AT TORONTO AND CHOICE BARROWS & GILTS AT CHICAGO (DRESSED EQUIVALENT)

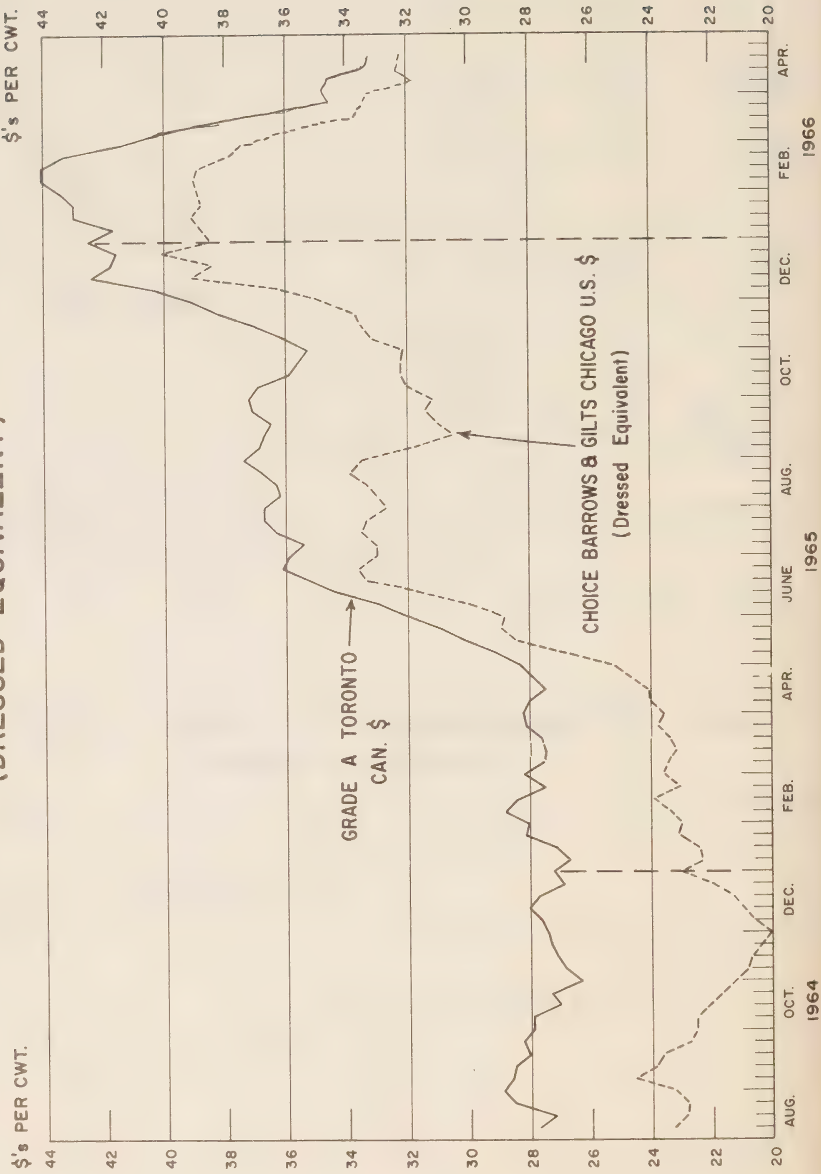
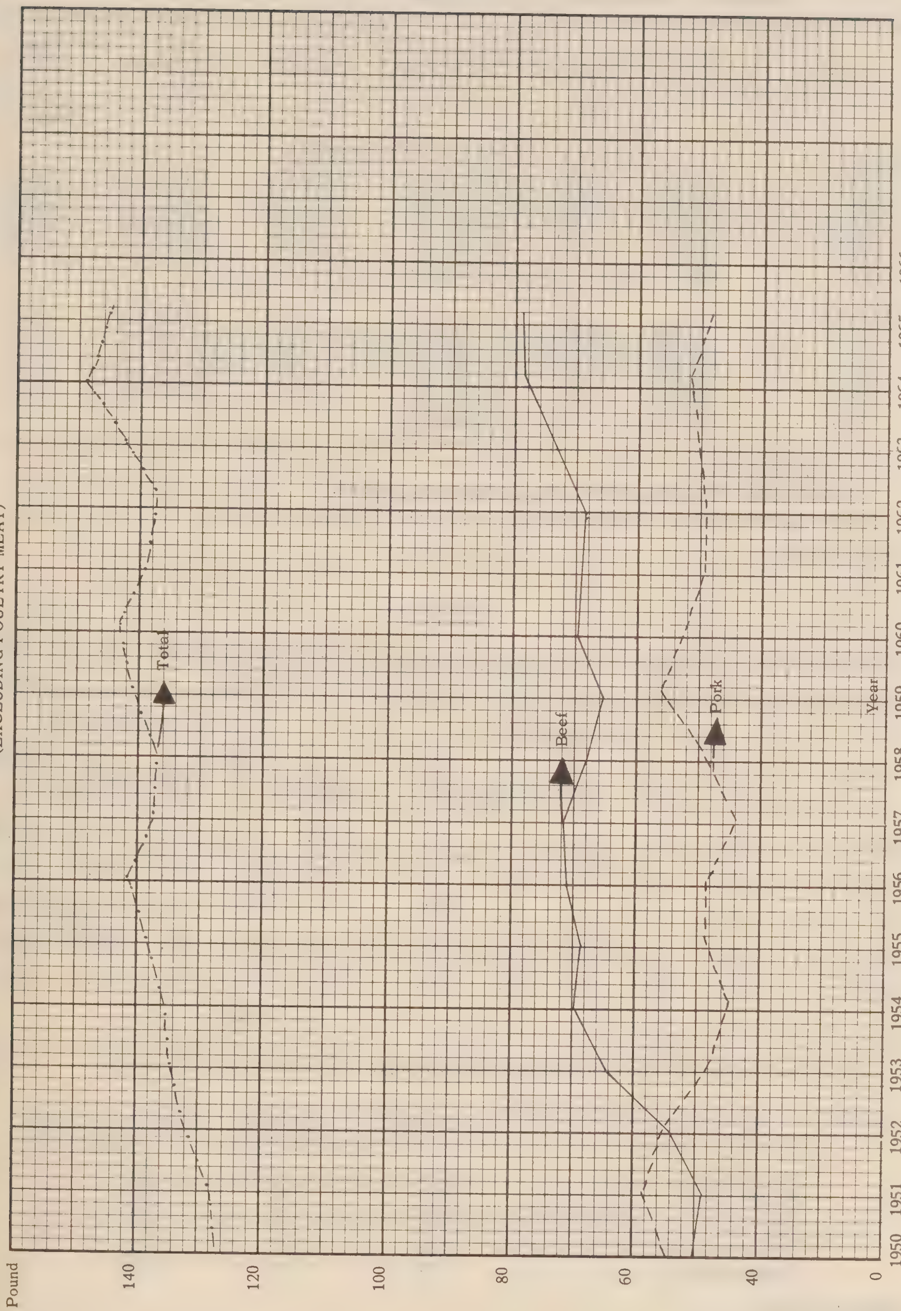


CHART "D"

PER CAPITA CONSUMPTION OF MEAT IN CANADA
(EXCLUDING POULTRY MEAT)



APPENDIX "5"

TABLE 1

ACREAGE, PRODUCTION, IMPORTS, EXPORTS AND PRICES OF LEAF TOBACCO

Year	Acres	Yield/Ac	Total Production(1)	Imports(2)	Exports(2)	Farm Price(3)
		lbs.	lbs.	lbs.	lbs.	per lb. Green Wt.
All Types						
1961	137,917	1,521	209,721,000	2,087,749	38,067,509	50.23
1962	130,947	1,550	203,027,000	3,113,095	48,624,108	47.24
1963	113,893	1,766	201,044,000	2,614,046	39,309,416	45.08
1964	85,316	1,798	153,414,000	3,391,618	51,958,298	54.18
1965	99,344	1,700	168,880,000	4,335,320	40,957,657	62.88
1966	130,175		213,681,000			
Flue-Cured						
1961	127,844	1,529	195,441,000	79,862	37,383,884	51.61
1962	122,196	1,535	187,621,000	—	46,803,824	48.28
1963	105,814	1,764	186,648,000	—	35,592,048	45.94
1964	79,639	1,798	143,197,000	—	48,674,420	55.61
1965	93,523	1,702	159,185,000	275,838	38,854,026	64.58
1966	123,371		203,000,000			

(1) Green weight basis.
(2) Actual weight. Includes redried and manufactured weights.
(3) Average price paid by buyers at tobacco auctions for all grades of tobacco.

October 5, 1966.

TABLE 2

TOTAL QUANTITY OF REDRIED LEAF TOBACCO TAKEN FOR MANUFACTURE QUARTERLY AND ANNUALLY IN MILLIONS OF POUNDS

	Flue-Cured Quarter					Total All Types Quarter				
	31 Mar.	30 June	30 Sept.	31 Dec.	Annual	31 Mar.	30 June	30 Sept.	31 Dec.	Annual
1961	27.5	29.8	26.2	27.7	111.2	31.1	33.4	29.5	31.3	125.4
1962	29.7	30.7	24.9	28.3	113.6	33.5	34.4	28.2	32.0	128.2
1963	29.4	30.3	27.4	27.6	114.7	33.1	33.9	30.8	31.6	129.3
1964	26.0	31.3	29.8	30.3	117.4	29.8	35.5	33.4	34.3	133.0
1965	29.8	32.1	30.2	31.7	123.8	33.6	36.1	33.6	35.3	138.6
1966	31.8	32.4				35.5	35.7			

Net Weight Equivalents per 100 pounds of Green Weight of Unmanufactured Tobacco.

	Green	Redried	Stemmed
Flue-Cured	100	90	68.4
Burley	100	89	68.5
Dark-air	100	89	68.5
Dark-fire	100	96	96
Cigar-domestic	100	96	61.4
Cigar-imported	100	96	67.2

October 5, 1966.

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 6

TUESDAY, OCTOBER 11, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. S. Ron Basford, M.P.

WITNESSES:

Mr. H. K. Leckie, General Manager, Meat Packers Council of Canada.
Department of Agriculture, Production & Marketing Branch:
Mr. D. B. Goodwillie, Director, Dairy Products Division.
Mr. S. B. Williams, Assistant Deputy Minister.
Mr. E. A. Eardley, Director, Fruit & Vegetable Division.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

24963—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

For the Senate

Hon. David A. Croll, Joint Chairman

the Honourable Senators

Carter,
Croll,
Davey,
Deschatelets,
Hastings,
Hollett,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. S. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cameron (*Nanaimo-Cowichan-The Islands*),
Cashin,
Clancy,
Code,
Crossman,
Deachman,
Duquet,
Gray,
Irvine,
Leblanc (*Laurier*),
Lefebvre,
Mandziuk,
Matte,
McCutcheon,
McLelland,
Nasserden,
Olson,
Otto,
Ryan,
Saltsman,
Smith—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,

Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, October 11, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), McDonald (*Moosomin*) and O'Leary (*Antigonish-Guysborough*) —4.

For the House of Commons: Messrs. Allmand, Clancy, Lefebvre, Mandziuk, McCutcheon, Olson, Otto, Saltsman and Smith.—9.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel.

Mr. H. K. Leckie, General Manager, Meat Packers Council of Canada, was heard.

At 12.30 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Deschatelets and O'Leary (*Antigonish-Guysborough*).—4.

For the House of Commons: Messrs. Cameron (*Nanaimo-Cowichan-The Islands*), Clancy, Code, Leblanc (*Laurier*), Lefebvre, Mandziuk, McCutcheon, Olson, Saltsman and Smith.—10.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel.

The following were heard:

Department of Agriculture, Production and Marketing Branch:

Mr. D. B. Goodwillie, Director,
Dairy Products Division.

Mr. S. B. Williams,
Assistant Deputy Minister.

Mr. E. A. Eardley, Director,
Fruit and Vegetable Division.

(*Tables referred to by Mr. Goodwillie and Mr. Eardley are printed herewith as Appendices 6 and 7, respectively.*)

At 5.15 p.m. the Committee adjourned until Thursday next, October 13, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, October 11, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll, Co-Chairman, in the Chair.

Co-Chairman Senator CROLL: Gentlemen, I see a quorum.

Mr. ALLMAND: Mr. Chairman, because of the great public interest, many people have approached me with the idea that they would like to see these proceedings televised. During the sittings of the Committee on Broadcasting, this was also suggested. The C.B.C. said they would like to arrange this, especially because there was some discussion recently as to whether we should televise parliamentary sittings and committees. I suggest that this matter be referred to the Steering Committee to see if it would be a good experiment.

Co-Chairman Senator CROLL: Is it agreed to refer that matter to the Steering Committee?

Hon. MEMBERS: Agreed.

Co-Chairman Senator CROLL: Gentlemen, this morning we have Mr. H. K. Leckie, General Manager of the Meat Packers Council of Canada. In the afternoon we will have another important witness, Mr. D. B. Goodwillie, Director of the Dairy Products Division, Department of Agriculture, and Mr. E. A. Eardley, Director of the Fruit and Vegetables Section.

Moreover, we are permitted to sit while the House is sitting, as a result of action taken by the House on Friday, of which this committee is most appreciative.

The meeting this afternoon will start at 2.30. I hope it will not inconvenience those who want to be in the House for the opening.

Mr. OLSON: Mr. Chairman, did you say 2.30?

Co-Chairman Senator CROLL: Yes. Why?

Mr. OLSON: I would suggest that from 2.30 until 3 or 3.15 it would be very difficult for any members of the House of Commons to be here.

Co-Chairman Senator CROLL: Could we try it for this week and see how it works out. I thought of that point myself. What is the feeling of members of the House of Commons?

Mr. MANDZIUK: Three-thirty.

Co-Chairman Senator CROLL: That would not give us time to do business. The half-hour at that time is very vital. Would members of the House of Commons accept 3 o'clock? I see no objection. It is agreed. Three o'clock this afternoon and every other meeting afternoon at 3 o'clock.

Mr. OLSON: For this week, to see how it works out.

Co-Chairman Senator CROLL: Yes, and then go back to 2 o'clock?

Our witness this morning is Mr. H. K. Leckie, General Manager, Meat Packers Council of Canada.

Mr. H. K. Leckie, General Manager, Meat Packers Council of Canada: Mr. Chairman and honourable members of the committee, may I say that when I was waiting on Thursday last I did not have a brief but on Friday I took advantage of one day in the office and got some thoughts on paper.

I have brought with me Mr. D. M. Adams, our Secretary Treasurer, to assist me in handling questions at the end of the presentation.

Observations on Meat Marketing at the Processor Level

The Meat Packers Council of Canada, of which I serve as general manager, always welcomes an opportunity to provide basic, factual information to the public concerning the general functions and operations of the meat industry. This is, and always has been, one of our primary objects. Any assistance the Council can be in furthering the deliberations of this Joint Parliamentary Committee will be rendered to the best of our ability, although the subject under study is more complex than generally realized.

First I would like to make a brief statement about the nature and functions of the Meat Packers Council of Canada. In existence since 1919, the Council is the only national trade association of the meat industry in Canada. Membership is open to any slaughtering meat packer or non-slaughtering processor who operates under federal inspection. At present our members include 27 firms who operate 54 individual plants in 9 provinces. Member firms are of various types and sizes and include several co-operatives. They sell their products in all provinces as well as in export markets.

The objects of our Council are broad and constructive. These are set forth in a leaflet we are pleased to provide for the information of the Committee. Briefly the Council's primary purpose is to serve in a liaison capacity with other segments of the livestock and meat industry from producer to consumer, including government agencies, in working for the sound development of animal agriculture as a whole.

Throughout the 47-year history of the Council, it has worked particularly closely with the producer, for the latter controls the quantity and quality of the livestock available for processing.

It should, I think, be pointed out at the outset that the Council does not become involved in the management or trading decisions of its individual members, who buy livestock or meat, process the product, and sell the resulting meat and by-products in an intensely competitive market situation.

I might add here that, personally, I know of no industry in which competition is so intense, and I say this as an agricultural economist having spent several years in the Government in the Department of Agriculture and five years teaching marketing in an agricultural college.

Nor does the Council collect or compile any data relating to buying or selling prices, costs or financial results of its members. While we endeavour to assemble factual information about the industry from various officially-published sources, and to undertake some secondary analysis of such data, we do not have a specialized research staff for this purpose.

I mention the foregoing to indicate the limitations in the type of information the Council can provide or has at hand.

The Council has prepared a pamphlet *Canada's Meat Industry* which outlines in some detail the nature of processing operations relating to beef, hogs and other species of stock. We would be glad to provide copies to the Committee if desired.

I might say that this pamphlet contains tabulations of beef and pork carcasses. It tells part of the story that you heard when Mr. Bennett testified before you, but I do not think it gives the complete picture that you probably wanted at that time. We will shortly have the 1966 edition of another pamphlet

Meat, Canada's Largest Food Industry on Canada's meat industry, which contains a lot of basic statistics of livestock production, meat production, consumption and the relation of these meat prices to wage rates, etc., I will be glad to mail copies to all members within the next two weeks, or as soon as the pamphlet comes off the press. Unfortunately, the 1965 edition is right out.

The central core of the Canadian meat packing industry are the federally inspected plants numbering some 300, whose products are able to move into interprovincial and export trade as well as through local distribution channels. A good many of these plants slaughter and process all species of livestock, a smaller number may specialize in cattle, hogs or poultry, and a considerable number purchase only meat for specialized further processing.

In addition to federally-inspected plants, there are a great many local slaughterers and processors, particularly in Quebec and Ontario. Provincial inspection programmes are now in various stages of development.

The primary function of the meat industry—and a very essential one—is to efficiently convert all the livestock of the various species and qualities marketed by producers into meat and by-products, and to market these products aggressively and competently.

In this respect the packing industry performs a very important service to the producer, and in the process returns a high proportion of its sales dollar to him. As I will indicate later, 75 to 80 per cent of the value of meat industry sales comprises the cost of raw material, principally livestock.

As well as serving the producer in this way, the packing industry also serves, through the retailer, the consuming public, who have become accustomed to having constantly available an ample supply of a wide range of fresh and processed meat products of assured quality and wholesomeness. The general high standards of the Canadian meat industry are internationally recognized.

The main customers of packers are the retail trade, but other important outlets are the institutional trade—hotels, restaurants, etc.,—and sales are also made to foreign customers in many countries as well as to domestic processors and purveyors.

The meat industry operates under some conditions which are similar to other manufacturing industries, while others are rather peculiar to it. Some of the more important are, first, the industry's main limiting factor—the supply of livestock for processing—is beyond its control.

The industry is characterized by large volume and rapid turnover. Both its raw material—livestock—and its main product—meat—are highly perishable and must move through the market rapidly to be in top condition.

The meat industry is characterized by intense competition and highly volatile prices in procuring livestock and selling its products. Its operating margins are narrow and unstable.

Meat processing is a complex, dis-assembly process. Inspected packers are closely regulated, for instance, with regard to meat inspection, grading, processing and packaging regulations, and quite a host of other regulations at the federal, provincial and municipal levels.

The industry has been undergoing extensive technological changes in various aspects of its operation.

In the interests of getting on, I will not comment on those in detail at this time. There are three distinct levels or stages involved in the livestock-meat marketing process. These are: producer to packer; packer to retailer, or other customers, that is, other customers of the industry as mentioned above; and retailer to consumer.

Since the primary stage has been already covered in some detail by previous witnesses from the Department of Agriculture, I do not feel it is necessary to comment further on it in detail at this time.

Nor do I feel competent to discuss merchandizing and pricing at the retail level, since I have no special knowledge of this area.

Before leaving the primary stage, and turning attention to the second or wholesale level, perhaps a final observation or two would be in order.

The first is this. Since the market supply of livestock at any given time is controlled by the individual production and marketing decisions of producers, and since volume is an important consideration to the packer, both with respect to building up his business and keeping his plant operating efficiently, there is naturally a strongly competitive market situation for livestock.

This competitive situation is today given free play by the fact that all cattle on terminal markets, and most local markets, are sold by public auction. In the case of hogs, as noted in previous testimony the Committee has heard, centralized sales are made by marketing boards or commissions—and, here, I would like to insert four provinces—which make for a very competitive system. The four provinces are Ontario, Quebec, Nova Scotia and New Brunswick; and, actually, the matter is under discussion in other provinces at the present time as well. And, taking into consideration the fact that co-operative marketing organizations handle a substantial portion, this would account for roughly 50 per cent or better of the hogs.

As one further observation, it should be clear that the future of the meat packing industry in this country is closely tied to the future of the livestock industry. In recent years, livestock and meat output, particularly beef and poultry, has risen substantially in response to demand and price. But at the same time the costs of livestock production, despite technological advances in breeding, feeding and management, have also been rising. Most observers seem to agree that if animal agriculture is to continue to increase its output to meet domestic and world food needs, producers will have to have adequate returns and prices. In Canada the present strong export demand for wheat and grain has a special bearing on this situation.

Recently, in commenting on this situation, the Chairman of the Board of the American Meat Institute said:

> One thing seems certain under these circumstances. The price of meat will have to be higher than it has historically been, if this industry is to be able to pay prices to the producer high enough to encourage continued production. This requires, on the part of the packing industry, an entirely new concept as to what are adequate or are high prices. Earnings opportunities outside agriculture may be such that the producer will no longer provide the labour necessary to maintain or expand animal production unless he is compensated for it by prices sufficiently high to compare favourably with his earning opportunities elsewhere.

I mention this point simply to indicate that while the present concern may be with cost-of living and consumer prices, in the longer run adequate supply may well be an over-riding consideration.

Since Canadian meat packers do not engage in retailing, their connection with the pricing process for meat is at the wholesale level only and in effect packers are both processors and wholesalers.

I would first like to offer a few general observations and then some specifically with respect to beef and pork.

As previously indicated the Council is not involved in any way with the selling and marketing operations of its individual member firms.

In general, however, it may be said that packers and processors sell their products to the retail trade through an intensively competitive process of private treaty negotiation, which goes on constantly from day to day and week to week.

Originally packinghouse products were sold through a large number of salesmen on the road, supplemented by branch house and car route sales. Changes in transportation and communication, as well as structural changes in retailing, have altered the sales organization of packers in some degree, as might be expected. But basically it is still a very competitive situation of individual bargaining.

To my knowledge the only source of public information on wholesale to retail meat prices regularly available are those compiled by the Dominion Bureau of Statistics or those based on a limited sample of respondents published weekly by the Department of Agriculture. Beyond this, the only market information available is that possessed by individual packers and retailers as gained in the course of trading.

As regards the volume of various types of meat products sold at wholesale, there is a minimum of information available. Monthly and annual statistics of product shipments are compiled by the Dominion Bureau of Statistics, as well as external trade data. There are also monthly calculations of domestic disappearance of beef, pork, and other meats made by the Department of Agriculture.

At the same time that packers are buying livestock they are also processing and selling meat. They have to make constant decisions as to the type of processed products for current production according to the trend of orders and sales, export requirements, etc. There is a varying time lag between the time livestock are purchased and when all of the multiplicity of products are sold. Thus managing packing-house operations is a very complex process, involving many decisions in an endeavour to keep returns in line with costs and vice-versa. Only slight miscalculations can result in a loss on current operations since the industry has over a period of years shown a net earning equal to one per cent on sales, or less. The last official figure available on that is in the Taxation Statistics figures for 1965. In 1963 earning was 0.86 per cent on sales. That is official Department of National Revenue information.

Basic Factors in Wholesale Meat Price Determination: In general, the factors having a bearing on the level of wholesale meat prices at any one point of time are as follows:

On the Supply Side:

1. The current supply and price of livestock available for processing. This takes in the supply of particular species; e.g., hogs, cattle, etc., and the total supply of meat animals and poultry.
2. The availability of imported supplies—not a major factor but important for certain species at certain times. For example, it is quite important in the case of lamb since we import a considerable amount of lamb and our production at times has fallen to a very low level. We also import pork at times.
3. The amount of meat in storage from previous periods of surplus supplies—normally a small proportion of annual output. In the case of pork about a week's production would be in storage at any one time.
4. A fourth example is the case of other protein foods, other than meat, which would also be in demand at a particular time. However, I mention that on the demand side.

On the Demand Side—as reflected through customers:

1. The amount of disposable consumer income—related to general economic conditions, wage and employment levels, etc.
2. Consumer preferences—related to type of meat, degree of preparation, food habits, etc.

3. Price and availability of competing food products, particularly to protein products that compete with meat.
4. Export markets—quantity and price considerations.
5. Seasonal factor—hot and cold weather, etc.
6. Retailer expectations of marketing possibilities. By that I mean the feeling that retailers have as to what will move. That is a factor on the demand side. Their expectation of the movement has a bearing on the demand.

The interaction of these factors through the buyer-seller bargaining process results in a constant sensitive adjustment of wholesale meat prices to existing market conditions. During some periods there is a relatively buoyant situation for certain products, at other times the reverse is true.

I shall refer in a moment to what the U.S. Food Marketing Commission said with respect to that. But the effect of the whole process is to move the available supply into consumption at prices which will accomplish this purpose.

Nature of the Demand for Meat: Economic factors in the demand for meat have been the subject of considerable study, viz., E. J. Working in the United States and F. M. Schraeder here in Canada.

The following quotation from Working's *Demand for Meat* may be of interest:

> During a period when the price level is rising, if meat prices only keep pace with the average price level of all consumer's goods, consumers will demand an increased amount of meat. Consequently during a period of inflation and rising prices, if there is no increase in meat supplies available to consumers, meat prices, being flexible and dependent on supply and demand in the short run, as well as in the long run, will rise more rapidly than the general level of commodity prices. Conversely, in a period of declining general price level the real demand for meat is adversely affected. . .the demand for meat is more affected by long-continued changes in real incomes than by equal changes of shorter duration.

Now, his work is quite an authoritative work and has a bearing on many of the aspects in which you are probably interested.

Relation of Livestock Prices to Wholesale Meat Prices: There is some indication from press reports of your committee's hearings to date that some impression has been created that livestock and meat prices show little or no relationship.

The facts are that over time there is in fact a close trend relationship between prices packers pay for livestock and the wholesale prices they obtain for meat.

I would like to quote briefly from what the U.S. National Commission on Food Marketing said in their exhaustive report, at page 26:

> The most significant and sensitive market in the livestock meat economy is the market for dressed meat at wholesale. It is on the basis of expected prices for dressed meat, and on projected margins, that packers usually determine the top prices they can pay for live animals and the quantity they will need. Their overall objective, of course, is to operate at margins to cover expenses and earn a profit. For the country as a whole, live animal prices are closely related to dressed meat prices.

That is at page 26 of the report, and I am certain the same statement could be made in this country.

It could hardly be otherwise, due to the high percentage of the industry sales dollar which is returned to the producer. To illustrate, following are sales dollar breakdowns which appeared in the 1965-66 financial reports of two Canadian companies, one being large in size, the other medium:

	Larger Packer	Smaller Packer
Cost of livestock and raw materials	75.67¢	76.35¢
Salaries and wages	10.99	13.87
Packages, supplies, etc.	4.39	4.28
General operating expense	5.72	4.42
Depreciation—fixed assets	.75	.36
Taxes, interest	1.35	.57
Net operating profit	1.13	.15
	100.00	100.00

That has been the picture over recent years—from 75 to 80 per cent, varying by packers, has gone to the cost of raw material.

It is, of course, only natural that in the short run, at certain times, the prices packers obtain for certain individual meat products or by-products due to special market conditions, may temporarily not appear to bear a close relationship to the value of the whole animal. But overall in the longer run there is actually a close relationship.

Beef Operations: The typical operation of beef departments in packing plants involves the slaughtering of beef animals, the chilling of their carcasses, hanging them for a period to enhance tenderness and flavour, and the sale of a large part of the supply as fresh sides, quarters or major cuts. Lower qualities, not suitable for "block beef" are boned out for processed meats, sausage products, etc. "Block beef" as it is called is the kind that goes into the fresh cut trade.

The main trends in the operation include more rigid trimming and defatting standards, a more exacting retail specification as regards aging, and a trend, although not yet fully developed, toward more special cut preparation. Most of the final cutting and packaging is still done at the retail level.

The best evidence available indicates the price trends for cattle and the price trends for carcass beef correspond very closely indeed. We have a chart on that. Mr. Adams will let you see it. We did not have time to let you have a copy in the deposition, but it shows that the price trends for carcass beef and for cattle for the last two years have run along fairly well parallel.

As an example of this close relationship, the average price of choice steers at the Toronto market for the first 38 weeks of 1966 was 7.8 per cent higher than 1965. In the same period the average wholesale quotation for Canada Choice carcass beef, as published in the *Livestock and Meat Trade Report* was 7.5 per cent higher than over the same period in 1965.

A weekly charting of this same data shows the same general close correlation, as well as the fact that U.S. and Canadian prices for cattle and beef generally maintain a close relationship.

Mr. Bennett the other day referred to the yield of Choice quality steers. I just worked out the figure for the week ending September 24—choice steers on the Toronto market according to Government market reports averaged $27.92 per cwt. that week. So, if you take a 1,000-pound steer, the packer would pay $279.20. If you take the 57 per cent yield, which Mr. Bennett used the other day, he would have 570 pounds of carcass beef coming out of that steer. The bluebook shows—admitting the quotations might have their limitations—the

average price of carcass beef, wholesale, was 48.8 cents. So, for the 570 pounds of carcass beef the packer would obtain $278.16. That might be a surprise to some people. The packer pays $279 for the steer and gets only $278.16 for the carcass beef, assuming that yield percentage. Or, if you work it the other way, if the cost of the carcass beef is $279.20, at 57 per cent yield that would be a "dressed cost" of 48.9¢, and the wholesale quotation is 48.8¢.

The value of hides and other beef by-products, while representing a small proportion of total value in relation to the carcass, is still of significance to the packer in his beef operations. I might say that over recent years the trend has definitely been for the by-products value to represent a smaller proportion of the value of the animal than normal due to substitutes for leather and decreasing markets in fats and other factors.

It may be noted that last year beef cattle slaughterings in Canada were at an all-time high and sold at the fifth highest average price on record. The value of cattle marketed was estimated at $617.6 million, the highest figure yet recorded. This year's figure just recently published shows that the farm cash income was $428.4 million for cattle and calves compared with $334.8 last year, or an increase of $93.6 million, or 28 per cent over last year.

Pork Operations. Compared to beef operations, modern pork processing is much more complex since the decreased hog carcass which the packer buys is subjected to a wide variety of processing operations.

The five primal cuts—ham, loin, belly, butt and picnic—are processed into many different forms. In all a pork processor may turn out from 100 to 200 different forms of pork products, ranging from fresh cuts such as a loin roast, to a skinned, boneless, defatted ready-to-serve—there is a slight typographical error, that should be "ready-to-serve" ham or butt, which is cured and smoked, and may even be sliced. The trend has been to a greater degree of processing and preparation in pork products, which in many cases leave the packing plant in the final consumer package.

While pork products enjoy wide acceptance by the consumer, the whole industry, from producer to packer, has been devoting increased attention to ways and means of maintaining the market position of pork in relation to beef and poultry. I might say that three National Swine Conferences have been held in the last three years, and they resulted in new market proposals for grading hogs and we are engaged in discussions with the Canadian Swine Council in implementing this new step, which would be a forerunner in any country, as far as I know.

The output of pork in Canada and the United States has not been keeping pace with the rapid gains shown by the beef and poultry industries. Due to a declining trend of North American pork output, hog prices in Canada early in February this year reached an all-time high of over $44 per 100 pounds in Toronto.

While hog markets have declined from these record levels since, it may be of interest to point out that packers have paid Canadian hog producers an average of $56.71 per hog for the 4,679,000 hogs graded in the first 37 weeks of 1966. This compares with an average of $46.36 per hog for 5,132,100 hogs marketed in the first 37 weeks of 1965. This is a difference of $10.35 more per hog in 1966. Looking at it overall, meat packers have paid $27 million more this year for 452,400 fewer hogs, or 11.5 per cent more for 9 per cent fewer hogs.

Looking at the overall relationship of hog prices at one market, Toronto, and the wholesale prices of major cuts over the year to date, the cumulative average price of hogs is 16.4 per cent higher than in 1965. In the same period the wholesale price of fresh loins—*Livestock and Meat Trade Report*—has averaged 16½ per cent higher, smoked hams 16 per cent higher, side bacon 17.4

per cent higher, with smoked picnics and cottage rolls showing average price increases of 29.1 per cent and 24.9 per cent respectively. However, I did not mention any of the other prices. Lard prices have remained virtually unchanged from last year. In the case of fresh shoulders there has not been much increase. In the case of pork sausage there has been a very small increase.

With respect to bacon, to which a good deal of reference has been made, there are a number of facts which should be pointed out:

1. Sliced bacon has become a special commodity in constant demand and with special demand characteristics.

2. The belly of a hog, from which side bacon is made, comprises only about 13 per cent of the carcass. During processing, it is derinded, trimmed and smoked, so that the final out-turn of product is further reduced.

3. Only part of the bacon from a slab is suitable for the packer's first brand. This is highly variable as the quality of the belly is related less to the carcass grade than any other cut.

4. When hog prices were rising to their record high during last winter, processors were unable to secure a corresponding increase for bacon.

5. The relationship between wholesale prices for bacon and other cuts tends to constantly change, according to combined domestic and export demand and supply conditions. When one cut goes down another cut has to come up, or the packer must try to buy hogs for less, or experience unprofitable pork operations.

In view of the relative price elasticity of demand for bacon—and I would take it we are relatively inelastic in demand—the natural result is that it is likely to command a high price when there is barely enough, or less than enough, to fully satisfy the market. By the same token, when it is in ample supply, it is usually difficult to sell all that is available even at substantially reduced prices.

Earlier this year, Canadian packers were faced with substantial outlays in redesigning bacon packages and resulting equipment changes in order to provide the type of package consumers wanted in order to see a full slice. This represented a substantial additional cost to the industry and possibly is a further factor with respect to the current level of bacon prices. At the same time the bacon purchaser now has the opportunity to select bacon in line with varying preferences as to leanness or fatness.

Over the weekend I did a little further thinking about this and I have a further statement I will be glad to submit in the discussion, and I will not take time to read it at the moment.

Co-Chairman Senator CROLL: Go ahead now, please.

Mr. LECKIE: Would you like it read now?

Co-Chairman Senator CROLL: Yes.

Mr. LECKIE: I was working at rather high speed on Friday, and I took a little further look at the whole thing on Saturday. This is a supplementary note on bacon price patterns.

In considering the pattern of side bacon prices at the wholesale level there appear to be two main aspects: First, the factors related to the prevailing level of prices; and, second, the factors concerned with the relationship of bacon prices to those prevailing for hogs and other hog products.

First, why bacon is currently priced as it is. The reason why breakfast bacon is currently selling for what it is, is basically very simple, in economic terms. I am, of course, talking only from my standpoint about wholesale prices, because I have nothing to do with retail prices and nothing to do with wholesale prices, but I am only talking about the wholesale level and I am not trying to explain retail prices at all. For every commodity it is possible to arrive at a

demand schedule of the total quantities which buyers will take at various prices. As prices rise, other things being equal, less will be bought; as prices fall, by the same token, more will be bought. The relationship of quantity taken to price is also related to the relative price elasticity of demand for the product. If the demand is relatively inelastic, which appears to be the case with bacon, purchases will not taper off too sharply as prices rise, nor will they increase too dramatically as prices fall, at least in the shorter run.

One can only conclude, therefore, that the present demand for bacon is such, that the amount currently available is able to move into the market at current prices. Until supplies are found to be backing up, or until supplies increase, there is no real economic pressure for a price change.

It should, of course, be noted that the demand for bacon sold by processors at the wholesale level, is what is known as a "derived" demand—

Co-Chairman Senator CROLL: What sort of a demand?

Mr. LECKIE: A derived demand. That is, it is a reflection of the demand at the retail or consumer level. Retailers in negotiating week by week with bacon processors regarding quantity and prices, are naturally conscious of how bacon is moving. Whenever processors find they can no longer sell all their production of bacon to the domestic retail trade plus whatever export markets they may have, they are faced with two main alternatives, in view of the fact that bacon production is virtually the sole outlet for bellies.

These alternatives are:

1. To lower prices so that it will all move.

2. To freeze and store fresh bellies for later processing if they feel the situation is temporary and the risk not prohibitive. Obviously, they would generally consider it unwise to store shortly before a period of seasonal or cyclical increase in hog supplies was anticipated.

In any given situation, not all processors may make the same decision at the same time. But, if a significant number of processors accept lower wholesale prices, all are soon forced to follow suit.

If the wholesale price of bacon falls, a processor either has to try to obtain an offsetting higher return for some other hog products, or try to buy hogs a little cheaper. Competition limits the ability of any individual processor to do either, but important changes in the situation eventually result in a general industry adjustment of some kind.

I turn now to the other subject, the present relationship of bacon prices to prices of hogs and hog products. The complete hog package which the packer buys contains a variety of components of which from 60 to 65 per cent by weight are the five main cuts—the ham, loin, belly, butt and picnic. These primal cuts make up the larger part of the commercial value of the carcass.

The belly cut, from which breakfast bacon is processed, makes up only around 13 per cent of the carcass weight. Although the belly yield varies from hog to hog, the average 155 pound hog produces about 20 pounds of rough belly cuts.

The belly cuts, during processing into side bacon, are trimmed according to each packer's standards, the skin and some attached fat is removed, and the slab is cured and smoked, then sliced and packaged. As a result, the final yield of sliced bacon is significantly less than that of the original fresh belly. Also only part of each belly is suitable for the packer's first brand of bacon. Some of it may go into second or third brands, and there are also small pieces and ends to dispose of.

Obviously, therefore, the price finally realized by the packer for bacon, which comprises only a small part of the whole carcass, will not necessarily at any given time bear a close relationship to the complete carcass price. Some-

times the price which can be realized may be relatively high or low compared to either other main cuts or the carcass, due to current marketing situations.

This has been well illustrated in recent months. When hog prices started to advance in June, 1965, wholesale prices for bacon also advanced. However, by the time hog prices reached their record all-time high early in 1966, wholesale bacon prices were lagging far behind.

For example, during the week ended July 22, 1965, according to data reported in the *Live Stock and Meat Trade Report,* the Toronto price for Grade A hogs was $36.67 per 100 pound, while the average wholesale price for top grade sliced bacon was quoted at 90.4 cents per pound.

By the week ending February 5, 1966 hog prices had advanced to $44.05 per 100 pounds, or $7.38 per 100 pounds higher than the previous July, 1965 week quoted. Yet the average wholesale bacon price quoted for February 5, 1966 was only 91.6 cents per pound—only 1.2. cents above July, 1965.

A reverse situation has prevailed more recently in 1966. Hog prices have declined from their record early year levels without a corresponding reduction in bacon prices. However, for 1966 to date, compared to the same period of 1965, the percentage increase in the average cumulative wholesale price for bacon is only slightly greater than that for hogs. Thus indicating that the two situations more or less right themselves, or compensate for each other.

At the same time that wholesale bacon prices have remained relatively firm in response to demand and supply conditions, prices for some other hog products—for example, hams—have declined. It has been very unusual to have bellies occasionally commanding higher prices than other normally higher priced cuts.

Certain other unusual factors also were present from the latter part of July to the end of September. These included the strike which closed the plants of a major packing firm, as well as the rail strike which affected product movement for about two weeks.

Although during the strike other plants were able to handle all the livestock marketed by working overtime and hiring extra gangs, the marketing situation for hogs was particularly tight in Ontario. The Ontario Hog Producers Marketing Board on a number of occasions in September had to hold unsold hogs over for short periods, and also requested truckers and producers to delay deliveries during congested periods when plants were working to maximum capacity. During the period the normal differential in prices between western Canada and eastern markets narrowed considerably. The seasonal peak in western hog marketings occurs later than in the east, not generally coming until November and early December.

The interaction of these various factors seems to have largely accounted for the recent strength and stability in belly and bacon prices, which could logically be expected to persist until there is a marked change in supply and demand relationships.

I have just one other thing I should like to say in conclusion, Mr. Chairman. It is a general observation. In looking at food costs as a component in the rising cost of living there appears to be a tendency to start with the premise that if food costs are higher than they have been at a previous point of time, then some segment of the food economy is "to blame" for the situation.

Using this approach with regard to pork product prices at the present time it would be possible to ascribe varying shares of responsibility, and possibly quite unfairly, depending on who wanted to prove what, on the producer, the processor, the retailer, the consumer, or the Government.

Obviously, before fingers can be pointed at any segment, the full facts must be appraised fairly and objectively, and, I would suggest, they may very well show that no party deserves any real "blame" for the situation.

Thank you.

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Mr. OLSON: I should like to refer to page 8 of your submission where, in the fourth paragraph under the heading "Beef Operations" you give an example. You say:

> As an example of this close relationship, the average price of choice steers at the Toronto market for the first 38 weeks of 1966 was 7.8 per cent higher than 1965.

And then you go on to say:

> In the same period, the average wholesale quotation for Canada choice carcass beef, as published in the *Live Stock and Meat Trade Report* was 7.5 per cent higher than over the same period in 1965.

I believe you said something else in your remarks—I am not quoting you exactly, but it was to the effect that there was a very, very close relationship between the price paid to the producer and the wholesale price. In other words, you said that the wholesale price was very sensitive to the prices paid to the producer, and that this was reflected almost immediately.

I am not disagreeing with these figures, because when I look at Table II of the appendices attached to the submission made by the Department of Agriculture last week I can see that there is an increase over that period of 38 weeks that you talk about, but from January, 1965 to January, 1966 there was a substantial increase—something over $4 per one hundred—it was $23.56 in Toronto for choice steers and it went to $27.74—and yet when I look down the column to June, July and, even, August of 1966 as compared with 1965 I see that there was a decline, but there was no corresponding decline in the retail price, and I assume that there was no corresponding decline in the wholesale price from January to June, and in July and August.

I am curious and puzzled about this, because if we are going to substantiate what you have suggested—I am not prepared to disagree with you at the moment—then there should have been a substantial increase in the wholesale and retail price of the cuts from choice steers in January, February and, even, March, but they should have come back down again in June, July and August, but they did not. Would you like to explain why this happened?

Mr. LECKIE: Maybe they did not go up in the way they might have been expected to go up. I would not try to claim that at all times—I cannot in all conscience say anything about the retail relationship, because you are talking about cuts and you are subdividing, and you are getting into retail pricing policies and practices. You are going to have the retailers before this committee, as I understand it, at a later date. I am not an expert in their business. However, I think you are correct that in the early part of this year there was not quite as good a relationship between wholesale beef as there was a year ago; but we had such a relationship for a period a year ago, and the year before that, when I wondered how packers were making out and paying the prices for cattle in relation to what the wholesale quotations were. However, the September figures show that they came up by $2. We have a fairly strong market right now, and there is a new trend with cattle prices becoming quite strong.

Mr. OLSON: Is this an unusual thing, Mr. Leckie, or has it happened before, that there can be entirely wide fluctuations between a month in one year and the same month in the next year without a corresponding very sensitive response, as I believe you referred to it.

Mr. LECKIE: Do you mean in cattle prices?

Mr. OLSON: Yes, I am talking about cattle prices.

Mr. LECKIE: Are you asking how we defend the $2 increase from August to September?

Mr. OLSON: No, I am asking why the wholesale and retail price structure did not follow the prices paid to the consumer as closely as I think you claimed that they consistently do?

Mr. LECKIE: Well, there is of course the American market to consider, which has a big effect on our prices, because if we do not maintain a certain relationship when American beef comes in we will have difficulty selling it. We had quite a heavy production of cattle about the first half of the year, and we had a situation recently when the output of cattle started to go the other way, and actually during the period the strike was on, beef production, that is, cattle output, was on a much more reduced trend. Naturally, under those circumstances, you have good demand for your beef and the price of cattle goes up and often the wholesale price does not immediately reflect that.

Mr. OLSON: Do you think that the retail price has not followed the wholesale price fairly consistently in 1966?

Mr. LECKIE: I do not know whether it has or not; I am not an expert.

Mr. OLSON: Would you suggest someone we could ask about that?

Mr. LECKIE: I believe the trade, some of the processors who are members, might be asked.

Mr. OLSON: We are consistently being troubled by witnesses who claim they only know about one level and do not know what happens in the other level, and we are keenly interested in what happens to this price structure at all levels in the same place at the same time.

Mr. LECKIE: I am quite confident that over any reasonable period—as we showed on the chart of cattle and beef prices, the lines run along very closely parallel; they veer a little one way or another, but they are bound to come fairly close, because that is the only outlet the packer has for his beef. He buys his cattle in relation to what he is realizing on it wholesale. If there is any undue margin in beef somebody else will come in and drop the price, and that will bring it back to a very close relationship.

Mr. OLSON: Do you think the packers were losing money in the first three months of 1966?

Mr. LECKIE: Do I think that? I have no figures on any of their price returns. Canadian packers do not issue quarterly or semi-annual statements. American packers seem to do that.

Mr. OLSON: I was interested in your opinion, because you are on a full-time basis involved in the packers operations, or at least to some extent.

Mr. LECKIE: I talk to them quite often, but not about how they are doing financially, as a rule. Do you mean, how are they doing financially?

Mr. OLSON: What I am saying is this, that if they were not losing money in January, February and March of 1966 and there has been no reduction in the price of beef at the retail level since those months at this very low margin they claim, somewhere around one per cent, they must be either making a lot of money then or losing money in their operations, because it has gone down, oh, something over two cents a pound.

Mr. LECKIE: In February, for example, according to wholesale beef prices quoted by the Canadian Department of Agriculture's livestock and meat report, the first week in February choice beef was quoted at 50.2 cents per pound. The latest quotation is only 48.8 cents per pound.

Mr. OLSON: Fifty cents was for what month?

Mr. LECKIE: That was early in February, when it was around 50. During January it ran at about 47.5 up to 49.9, and the first week in February, 50.2, and then it went down to 48.4. Those latter quotations are not far from now, and

prices for cattle now are between 27.0 and 28.0, just what they seemed to be back there. I do not know of any indication of greater earnings.

Mr. OLSON: But in July and August it was 25.6, not 26.0, 27.0 or 28.0. Is there any explanation why there was not a decline in price there?

Mr. LECKIE: On carcass beef?

Mr. OLSON: I am speaking of the monthly average I have for choice steers.

Mr. LECKIE: According to the blue book, in the first week of July the figure is 44.5. Beef prices dropped at that time.

Mr. OLSON: Do you have these tables in front of you?

Mr. LECKIE: I have Mr. Bennett's table.

Mr. OLSON: Table VI shows essentially the same thing. It shows that Grade "A" carcasses in September were down to 39.92. I appreciate some of the explanation respecting variations in price of bellies and bacon, that it does not always follow that the prices will be the same for the whole carcass, but this table shows a substantial drop in the neighbourhood of 25 to 30 per cent. Should not some of that be reflected in the price of bacon?

Mr. LECKIE: All I can tell you is that according to any published financial statements of meat packers here or in the United States, almost continually from 1964 and 1965 they were making statements that poor markets and adverse hog margins were responsible for all their financial difficulties, and that actually prices that were prevailing in that period apparently were just not enabling them to operate on a decent basis at all.

Mr. OLSON: Would you have any comment to make in so far as the list prices, and what appears to be a deviation there in respect to the normal sensitivity to prices paid to producers in these three months of July, August and September—the relationship between this change and the pattern of the Canada Packers strike?

Mr. LECKIE: As I indicated in a supplementary paper, I think the strike had its greatest effect in Ontario as all the hogs in the whole country were handled, by and large. But in Ontario the Ontario Hog Producers Marketing Board made statements several times that they had hold-overs, and the local market was overloaded, particularly in September, so the main plants were trying to handle these hogs by working overtime, and with extra gangs, and working at nights, with overtime charges.

Mr. OLSON: When you speak of being overloaded, you are only talking about the operation of the packing plants, not about the wholesale and retail market being overloaded?

Mr. LECKIE: No, because there was the same quantity of livestock and meat available, whether there was a strike or not, so I think the consumers got the meat uninterrupted. They did not get some of the brands and processed meats, but the situation got handled somehow.

Mr. OLSON: You do not think that because of some lag or lessening in the competition, it is one of the causes holding these prices up, when the prices on the livestock market were declining?

Mr. LECKIE: I do not think so, but if you have the operating people in here, ask some of them what they think about some of these situations. The strike took a substantial proportion of capacity off the market, but the rest of the people picked up the slack. That is what we have been saying for some time. Part of the trouble with the industry is this excess capacity. This is not a costly thing. You get more capacity by hiring more men and working more hours, and then hiring more men. The key factor is in the cooler space. When you fill the coolers, you are through. It is like that with the industry, with this capacity, and it is fortunate as far as livestock producers are concerned.

Mr. OLSON: How much of the total capacity in Canada does Canada Packers have?

Mr. LECKIE: Honestly I do not know. The Government could produce figures on the kills. I have not got them.

Mr. OLSON: On page 3 of your brief you talk about marketing and the present structure for livestock. You say there are three distinct levels or stages involved in the marketing process. Somewhere else in your statement you say that really the processor and the wholesaler in most cases is the same firm. Where is the weekly or the daily price that is offered by the packer buyers in the livestock auctions—where is this established? Do the major chain stores, who have a very large part of their store in the meat department, do they bid in advance to the packers as to what they are willing to pay for sides of choice red or blue, or any other grade? And is this a determining factor in determining what the buyers bid when they go into the livestock auction markets?

Mr. LECKIE: I would not say they bid in advance for the cattle. No, not cattle that are being bought that day by the packer. There is a constant process going on. The packer has beef in his coolers at all times—at certain times of the week, especially. The chain store buyers are negotiating with the packer for the beef that he has. They come in and select it and stamp it, as I understand it. Perhaps I should not even talk about this, because I have only seen this indirectly and I have not got direct knowledge. Certainly with respect to the return the packer is getting for beef at any particular time, when sending his buyers out to buy cattle they are figuring what they should buy the cattle at to hang the beef in the cooler, a price commensurate with what he is getting for the beef.

Mr. OLSON: This beef moves through very rapidly and is never more than a few days of the week at most in storage. There would never be more than a week's supply in storage. I am wondering why it is the buyers go out one day and are willing to pay up to 26 cents or 27 cents, and the next day, or even later that week, it can be off a cent and a half or two cents. You do not think there is any relationship between this and what the meat retailers have indicated they are willing to pay for that week?

Mr. LECKIE: I could not really answer that at all. I would prefer that you ask the members of the trade. I expressed the opinion that I did not think that the packer was operating on any future contracts to the retailer. I think this is done currently week by week by the retailer and meat packer by negotiations. That is the way I understand it. Beef is not stored. You never store fresh beef. You only store manufacturing beef. You would not think of freezing fresh beef carcasses and holding them off the market. So there is a lag between the time it is slaughtered and the time it goes into store of about 10 days or more, after they take delivery of it. They buy these when delivered after the aging period is completed. This is the buying cycle and they try to buy cattle in line with what they are getting for beef, and they are trying to end up with a margin. It is the tightest business I know anything about. It is a fluctuating business at both ends—trying to keep costs down and trying to end up with a margin. You cannot say you bought at this price, you will add this and you will get this result. That does not work in the packing industry.

Mr. OLSON: Are you likely to think there is any discussion or agreement between packers as to how many cattle they are going to buy in any given market, or week or day?

Mr. LECKIE: I do not know whether I should answer it, but if you force me to answer it I would say I do not think so, but I have no personal knowledge of that—absolutely, I do not know. This is contrary to all packing house opera-

tions. They are competitive, they want to sell as much beef as they can, they want to utilize their plants and actually each one wants to buy as much as he can.

Mr. OLSON: I have one final question. I asked this before but in a different way. Is there anyone in Canada, to your knowledge, who does have the figures, the prices paid to the producer, the prices sold at wholesale, and the retail price—for the same place, the same data?

Mr. LECKIE: Daily, say?

Mr. OLSON: Well, even if it was only spot checks, as long as we are reasonably sure that there will not be some other variable factors that get in to confuse us. I want to know, if it is the market at Toronto, Calgary or Vancouver, and on the same date, where these spot checks are made.

Mr. LECKIE: The only reliable and official source of cattle prices we have got is the daily price given by the Department of Agriculture reporting service. That is the best price we have.

Mr. OLSON: They were here and they told us that they did not have the figures for wholesale and retail prices.

Mr. LECKIE: But they have cattle prices and they publish the wholesale price in the blue book, although we have helped set up channels for this and I am not any happier than they are about many aspects, because this is a complicated thing and requires a lot of detail and reporting. Those are only weekly average prices, the wholesale prices or the retail prices, the D.B.S. does work on those. The Department of Labour used to do it but I do not think they do so any more. There are some private firms who do some work on this. There is a firm in Toronto but I do not know if I should put in a plug for anybody. The name of that firm is the Ambler Reporting Service. They in turn publish a compendium of retail prices which they get from consumer ads.

Co-Chairman Senator CROLL: How long have you been with the Meat Packers Council of Canada?

Mr. LECKIE: Sixteen years, beginning in 1951.

Co-Chairman Senator CROLL: The reason we called you as a witness is that we did not want to call all the packers unless we had to—but we have time to call them all. We thought you might give us this information, which we ordinarily felt was within your capacity. When you tell us where else we can find information, we know that. We are aware of these things. Your purpose today, as I understand it, is to give us information. You know the purpose of the hearing, I am sure, and your clients, the Council, know it also. That is what we are interested in, straightforward answers, to the best of your ability. I am not at all impressed when you tell me that you do not know whether the companies are making or losing money. I should think that would be a subject of discussion at all times at the Packers Council.

Mr. LECKIE: Well, it is not. We interpret that as more or less out of bounds of our reference. Actually, some of our members would probably leave the meeting if this were discussed.

Co-Chairman Senator CROLL: Mr. Leckie, at page 3 you point out that there are three distinct levels. Mr. Olson asked you about producer to packer, packer to retailer, retailer to consumer. He asked you questions as to whether you could produce for us comparable figures in comparable locations. Is there any reason why you cannot have those produced for us?

Mr. LECKIE: There should not be any trouble producing livestock prices and wholesale prices.

Co-Chairman Senator CROLL: No. Just what you have said—producer to packer, packer to retailer, retailer to consumer—on beef and hogs. Why cannot you have that for us, giving comparable locations at comparable times?

Mr. LECKIE: I think an economist, from the information that is available, could produce this, given a little time. This is about the only way it can be done.

Co-Chairman Senator CROLL: I did not say an economist. We asked you, on behalf of the Council, why you cannot produce them for us?

Mr. LECKIE: I have nothing to do with the third stage, retailer to consumer. That requires some kind of study or investigation of the retail prices prevailing at any particular time. I do not think that is our business. As a Council we have no figures whatsoever. The wholesale prices realized to packers are already published in two sources, and that is the best I can do for you there. If you like, we can, as Council, use our office to do something, if you direct us. Normally, we do not do this, because we do not think it would be proper for us to compile wholesale prices.

Mr. OLSON: May I ask if they have any figures on what it would cost to process one, two or hundred, or any given number, of choice steers?

Mr. LECKIE: I have no figures, because we feel that it would be an improper exercise of the Council to give costs for our members.

Mr. MANDZIUK: Mr. Chairman, I have a supplementary question on the subject of bacon. I was interested to see mentioned on page 10, in number 3, that only part of the bacon, or slab, was suitable for the packer's first brand. Does the packer designate on the packaged product, or on the slab, that it is first brand, second brand, or third brand bacon? And if not, why not?

Mr. LECKIE: I think the correct answer would be that, generally speaking, he does not indicate whether it is first, second or third brand, because he advertises his first brand. His first brand is his advertised brand, and he assumes that most people know what his first brand is. Now, there is no regulation requiring him to do so, but I do know of one packer who identified three qualities of bacon, for example, but he just did that on his own. As far as I know, he is still doing it. He is one of the fairly larger packers.

Mr. MANDZIUK: May it not be a factor that the packers sell first, second and third brand bacon, whether in slab form—and I know that you can buy the slab form in any of the stores—or otherwise, to retailers at one and the same price? Why try to justify that he gets three different types of bacon.

Mr. LECKIE: I am positive that that is not the case.

Mr. MANDZIUK: I am positive that it is, sir, because I know a retail store in my own town which gets two or three slabs of bacon, and I, ignorant as I am, can tell that it is not first grade bacon, but he is charged for first grade bacon by the packer in Winnipeg.

Co-Chairman Senator CROLL: Gentlemen, in this order, Senator O'Leary, Mr. McCutcheon and Mr. Allmand, without supplementaries.

Senator O'LEARY (*Antigonish-Guysborough*): My first question, Mr. Chairman, to Mr. Leckie is on the structural organization of the Meat Packers Council of Canada. Do you have a membership as such?

Mr. LECKIE: Oh, yes. We have at present 27 member organizations that operate 54 plants. The leaflet that we distributed lists our members, although it is not right up-to-date. We have two or three members in addition to that.

Senator O'LEARY (*Antigonish-Guysborough*): These are all packer organizations? They are processors?

Mr. LECKIE: The members are all packing companies. Either they are slaughtering processors or they do not slaughter but just process. However, they are inspected by the Health of Animals authorities as to the quality of their meat.

Senator O'LEARY (*Antigonish-Guysborough*): You do not have any producers as members?

Mr. LECKIE: Yes, we have the First Cooperative Packers of Ontario, who have been members for 20 or more years. We have Cooperative Federee in Quebec, one at the Saguenay (Lachine) and also in Nova Scotia there is the Cooperative Abattoir in Halifax.

Senator O'LEARY (*Antigonish-Guysborough*): All right. On the first page of your brief, in the last paragraph, it is stated that during the history of the Council it has worked particularly closely with the producers, and then it gives the obvious reasons. Now, by "working closely with the producer", I assume you mean that your chief function is gathering information and contributing that information to the industry as a whole.

Mr. LECKIE: That is one of the functions. We gather general information about various aspects of the industry and put it out to anybody who would like to have it.

Senator O'LEARY (*Antigonish-Guysborough*): And your Council is financed by your member organizations, whether producer or processor?

Mr. LECKIE: Correct.

Senator O'LEARY (*Antigonish-Guysborough*): Now, in the distribution of this information, for example, what type of information would you give to the producer? With what type of information would you supply him?

Mr. LECKIE: For a large number of years we published what was called a "Letter on Canadian Livestock Products," which I believe all members received. Now, just at the present time, we are re-appraising that, because farm press channels have become slightly different now, and we just wonder whether this has outlived its usefulness as a type of communication.

We also put out "Weekly Facts Figures and Comments", which is a kind of digest of market trends, including anything of interest in the livestock, meat industry, and anything which we glean from the publications we receive. We pick out parts for busy people who have not the time to read all these publications, and we put those out; and we publish the "Canada's Meat Industry", of which you have a copy. That is the type of information we send out.

I would like to correct one thing you said. While some of our members include these co-operative processors, we do not have the livestock organizations as such. We work with them and sit down at meetings to discuss any problems they want to talk about, but they are not members of our Council. Only the co-operative meat packing plants are members.

Senator O'LEARY (*Antigonish-Guysborough*): Does the Dominion Bureau of Statistics seek any statistics directly from the Council?

Mr. LECKIE: No, not directly from us. We assist them. We sit down with them when they have a problem they want to talk about; for example, what is the best way to do something or what products are involved. We sometimes talk to them and we give them any help we can.

Senator O'LEARY (*Antigonish-Guysborough*): The same thing would apply to the Department of Agriculture.

Mr. LECKIE: Exactly.

Senator O'LEARY (*Antigonish-Guysborough*): I have just one final question which has to do with bacon, a subject you discussed at some length. I was very interested in your mention of the charts showing 13 per cent bacon bellies from 100 pounds of pork. I would expect you, personally, to be an expert on this subject. What is the normal duration of the process of curing bacon from the fresh cut to the consumer? What length of time does that take, approximately?

Mr. LECKIE: Well, it has gone down from what it used to be. They used to cure bacon in brine and then dry cure it in a box, but now it is done quite often by an injection process. I would say it has gone down from three or four weeks at one time to probably a week or ten days now.

I would like to have the opportunity to file a closer estimate with you, because it might be even less than 10 days; but it is only a few days now from what it used to be.

Senator O'Leary (*Antigonish-Guysborough*): Thank you very much.

Co-Chairman Senator Croll: Mr. McCutcheon, Mr. Allmand, Mr. Otto and Senator Carter.

Mr. McCutcheon: Thank you very much, Mr. Chairman, Mr. Leckie, I am sure that you agree with us that we are not anxious to blame anyone in particular. We just want to find out what is really going on. Therefore, I would like to refer back to your prices for pork. You said that in July of '65, they were $36.67 and the wholesale to retail price was 90.4¢. In February it was $40.05 and the wholesale to retail was 91.6.¢ There is just a little increase there.

They are now down to $33 live weight, I am told. Would you assume, therefore, that the wholesale price would be in the 80¢ range at the present time, if it follows that trend?

Mr. Leckie: Would I assume that it is or that it should be?

Mr. McCutcheon: Yes, that it should be.

Mr. Leckie: No, I would not, because, when prices were approximately $36 in July, and when the price of bacon was as quoted, if thata wholesale quotation from the Meat Trade Report can be taken as substantially correct, my impression would be that the wholesale price was much too low for that level of hog price. All pork processors in Canada and in the United States in the last two years have been complaining bitterly over losses on pork operations. Apparently, therefore, they were not getting the prices they should have had in order to cover their costs at wholesale.

Mr. McCutcheon: Do you have any more up-to-date figure than February of '66 on what the actual wholesale price of pork is? We know that it is $1.29 in the stores for bacon.

Mr. Leckie: I have just what has been quoted in the "Weekly Bluebook," and the latest figure I have is for the week of September 23 and that is only for Toronto, and that is a matter that has to be taken into account. You cannot take one market in the country and assume that prices will be the same all over the country. However, fresh pork loin was 72.4 in Toronto and smoked ham was 91.3. It has come down about 7 or 8 cents since the end of July.

Mr. McCutcheon: What are your 91.4 and 91.6 figures made up of? Can you not give me the same thing...

Mr. Leckie: I can give you the same quotation.

Mr. McCutcheon: I mean based on the same calculation.

Mr. Leckie: For what date?

Mr. McCutcheon: It confuses me when you start giving the various figures for various cuts because you did not in the earlier figure. You gave a flat wholesale price.

Mr. Leckie: I did not give the flat overall figure. This was in the supplementary statement I read—90.4¢ That was the wholesale price for No. 1 sliced bacon.

Mr. McCutcheon: I am sorry, I missed that. What is it now that brings the $33, as we know it, retail, to $1.39?

Mr. Leckie: I said I was not going to talk about the retail price. However, I would mention an example at home. We have a freezer, and recently there were four pounds of bacon which my wife bought within three or four weeks, and all No. 1, and all at 99 cents. Of course, I should not be talking about retail prices.

Co-Chairman Senator Croll: But we want you to talk about retail prices.

Mr. McCutcheon: What your wife bought was a "loss leader," wasn't it?

Mr. LECKIE: It was a "special" if you want to call it that, but we are now getting into retail prices. The wholesale price of bacon is given in the blue book, the most current one of which is September 23. At Toronto only for No. 1 sliced bacon we have the figure of 99.7 cents. That is the average for packers selling in the Toronto area.

Mr. MCCUTCHEON: A survey which took place last week in the Ottawa and Toronto areas arrives at a price of $1.29 for bacon, give or take a penny. I can only assume that what your wife got was a "loss leader".

Mr. Leckie, how long a period should elapse before retail prices follow producers' prices? Should it be one month, two weeks, three weeks—how long should it be?

Mr. LECKIE: If you are talking simply about how long it takes products to come from a live animal that the farmer has just marketed to the products bought in the stores, this period may be fairly short. It may be within a couple of weeks. If it is fresh meat, it may be within a few days. If it is cured meats of various kinds, it might be longer. But as far as the length of time is concerned, if you are talking about an individual product, you may have a different supply and demand situation for an individual product.

Mr. MCCUTCHEON: According to our grading standards, how many types of bacon are sold?

Mr. LECKIE: There are no grading classifications for bacon. By that I mean Government classifications. The packers have approximately three levels, one, two and three.

Mr. MCCUTCHEON: Could I now change for a second and ask a question about beef? How many grades of red brand beef do the packers sell?

Mr. LECKIE: There is only one grade of red brand beef—Canada choice. If you are asking whether it is all sold at one price, I think the answer is probably "No." There is always a range shown in the blue book for the prices of choice beef. Some may be overfinished and some may be underfinished by a producer. But there is only one brand of choice beef—it is either red brand or it isn't.

Mr. MCCUTCHEON: There is no variation in this? There isn't a top "A" and a bottom "A"?

Mr. LECKIE: Well, of course, some cuts may be considered as being better by one customer than other cuts.

Mr. MCCUTCHEON: It is a question of the choice of label that the retailer puts on? It is a matter of his choice?

Mr. LECKIE: If it is graded by Government graders, that brand stays on it and it cannot be changed. If it is Red Brand Canada Choice, then it stays red brand Canada choice and it would be illegal to mark it otherwise. But that does not mean that it is all sold at the same price. Some of it might be better according to one customer. Then there is the question of weight selection too. A retailer might want 500 to 650 lbs., and he would not want it lighter or heavier.

Mr. MCCUTCHEON: Can you tell us how much of the total sales of the industry is obtained from by-products?

Mr. LECKIE: I cannot answer it offhand, but I could try to get an estimate. It would not be too high, but I would not like to guess at it.

Mr. MCCUTCHEON: On page 6 of your brief you point out "since the industry has over a period of years shown a net earning equal to one per cent on sales, or less." May I ask this question? That is an infinitesimally small percentage. Would you care to comment on the industry's net earnings on capital invested?

Mr. LECKIE: Yes, I can give you a figure on that. Here, again, we depend upon the companies that publish financial reports, and that is a relatively small number. That is a relatively small number of the total, but Taxation Statistics

which I have here include a tabulation of all the packing companies who pay income taxes, and in 1963, which is the latest figure available—it is the 1965 book, but the figures are for 1963—the net earnings of the industry as a percentage of the net worth, which is my interpretation of capital, was 8.3 per cent. That is lower, I believe, than a considerable amount of other manufacturing industries and lower than all food and beverage industries.

Mr. McCutcheon: I can understand that, if what you tell us about a 1,000-pound steer selling to the packer for $279.20, and he processes it and it comes to—what did you say it was—$278?

Mr. Leckie: $278.16 was the value of the carcass—if you take that wholesale quotation, yes.

Mr. McCutcheon: I have one further question, Mr. Chairman. I would like to ask Mr. Leckie this: Who actually is setting these prices for bacon in the chain stores?

Mr. Leckie: The price is established by a bargaining process between retailers and processors. The retailer when entering negotiations is guided by what happens to his products. The packer is thinking about what he has paid for livestock, his volume, what he pays in wages, and things like that. It is the meshing of these interests that determines the price the retailer pays the packer, plus the overall North American situation, and what can be had from export as an alternative outlet, and also taking into account other products that can come in.

Mr. Allmand: In looking at the list of the members of your Council, we have some brand names I am familiar with but others do not appear; for example, La Belle Fermiere, Burns, and McGarry's. How many major packers do not belong to your Council, or do some of them belong under other names?

Mr. Leckie: Well, it is a voluntary orgnization. Actually the latest list includes Burns. They were out of our Council for a little while but they are back in now. La Belle Fermière are in as Bourassa are in Montreal. There is a fair number of fair-sized operators who have not seen fit to join the Council for one reason or another.

Mr. Allmand: Who are they, just so we will know? I would like to know. Your statistics, I assume, include the members of your organization. I would like to know if there are any major ones outside. Who are they?—so we can know.

Mr. Leckie: All the major ones are now members, as listed here.

Mr. Allmand: But are there any major ones who are not? We have the names of those who are. You said Burns and La Belle Fermière.

Mr. Leckie: It would take quite a while to get all the ones who are not members. Presswoods in Toronto are a fairly good-sized pork processor; they are not presently members. Then there is Gainers in Alberta—if you come from Edmonton, Alberta,—they are at the present time not members of the Council. There is quite a number of intermediate-sized people, but none of what you call nationally advertised brands. I think they are mostly in the Council at the present time. But the figures I have been quoting were mainly official figures, and I was not quoting, I do not recall, any specific ones from our Council particularly.

Mr. Allmand: I see. Are there any retailers, large supermarkets, etcetera, who do their own packing and run integrated industries?

Mr. Leckie: In this country the supermarkets have not gone into meat packing. There is none of them do their own slaughtering. Some do some processing—they slice bacon or make sausage, or make some secondary products. I saw in the paper the other day one said that it was going to do more.

Mr. Allmand: Which one?

Mr. LECKIE: I do not know whether I should say so.

Co-Chairman Senator CROLL: Steinberg's Limited. I have the statement here, and I will ask you about it.

Mr. LECKIE: In the United States some of the retailers do feed cattle and actually own slaughtering outlets in some cases, but there is no major affiliation in Canada between retailing and meat packing, except that processing operation I mentioned.

Mr. ALLMAND: In your brief, on page 7 you divide the packers into the larger packer and the smaller packer. I see with regard to the profit that there is a considerable difference between the profit made by the larger packer and the profit made by the smaller packer. Actually, in the case of the smaller packer it is only 0.15 per cent. I was wondering what percentage of the packers would fall under the category of "larger packer".

Mr. LECKIE: Just because he is a larger packer—I have one financial statement of one of the major packers for the last fiscal year, and actually his earnings were relatively small, so you cannot automatically put them into a category based on size. This major packer in the 1965 fiscal year only made a profit from operations of $254,000 out of sales of $200 million.

Mr. ALLMAND: You said this was a very competitive industry, but there seem to be some very large packers, like Canada Packers and Burns, and so forth. Would you say that because they are so big they have a greater role in setting the prices across the country than the smaller people who follow after them?

Mr. LECKIE: Well, I think in any form of economic activity the person who has a larger volume to dispose of, and if there is a lot of people—especially because our modern retailing has tended towards having a larger amount of standardized products, they want a big order for a certain class product, of certain specifications, so the person who can supply that big order naturally, you would think, would have a stronger bargaining position than one who is smaller. But I think in any economic activity the larger operators should be expected to take the lead because they probably have better accounting and, presumably, better management and are more aggressive, and all the rest of it. So I would say generally the answer should be "yes" to that.

Mr. ALLMAND: On page 7 you set out the costs of packers, but you do not have any item for advertising. I know on television we see a lot of packers advertising. We see Burns and Maple Leaf, and so forth and so on. Do you know what the costs for advertising are, because you do not have them there.

Mr. LECKIE: This is included, I presume, under "General Operating Expense." If you are going to interview any of the packers, you can find this out, but I do not know of any tabulation of their exact advertising budgets. However, one of the presidents of a major company spoke at a recent annual meeting of our Council and made the statement that meat packers spend relatively little for advertising compared to some other industries. Actually, they only advertise their branded products. Fresh meat they cannot advertise because under a government grade one packer's fresh meat is the same grade as others, so there is no use anybody advertising his own beef, for example. A large part of the output is fresh meat and they do not advertise it, but only the branded processed lines. My impression is that the meat-packing industry spends less on advertising than some other branches of industry. The figures may be supplied by companies, but I do not know what our members spend on advertising.

Mr. ALLMAND: In referring to the packaging of bacon you said that because of the demand by consumers the bacon package design has been changed to show a whole piece of bacon. You said this involved considerable cost. Would

you be able to tell us approximately how many cents or what fraction of cents per package? Maybe it is a fact that all bacon went up in price in the last year because they changed the packaging.

Mr. LECKIE: On May 1st it came into effect.

Mr. ALLMAND: How many cents per package?

Mr. LECKIE: I know it probably cost several hundred thousand dollars, but I have not a figure, but it is substantial for the whole industry—with new package designs and plates, and new machinery or alterations to machinery to handle it. I would have to get an industry figure, but I do know it was very substantial, but how much came in the packaging of bacon I do not know. It depends on write-off, and so on.

Mr. ALLMAND: This is to pursue what Mr. Olson was asking you about. It seems hard to understand why in 1966, when we look at hog prices they were $42.73 in January and then in September went down to $33.92, and at the same time in 1966 pork prices at retail have been all going up. We want answers for this, and we do not seem to be able to get them. If we follow what you say in your brief, that should not happen. You say you have no explanation at all for that. I am looking at the figures given by the Department of Agriculture for hog prices. As a matter of fact, they are lower in July, August and September of 1966 than they were in 1965. Yet the prices in July, August and September have been higher at retail than for a long time.

Mr. LECKIE: Ham prices have not, and ham is quite a major part of the hog. Ham prices in January, the wholesale quotation amount, taken from the blue book, was $1.05 a pound, when hog prices were at their peak. The latest quotation in September is 89 cents.

Co-Chairman Senator CROLL: For what?

Mr. LECKIE: For ham.

Co-Chairman Senator CROLL: We are talking about bacon.

Mr. LECKIE: I was saying ham has come down and represents a considerably larger proportion of the hog than bacon. Bacon has stayed up, but ham has gone down.

Co-Chairman Senator CROLL: Look at the bottom of page 9.

Mr. LECKIE: You could buy ham for less now than bacon. Why do not more people do it?

Mr. URIE: Except you say it is up 16 per cent.

Mr. ALLMAND: You say that where ham has come down bacon has gone up, and that this is because bacon has to support a higher—what was your explanation again?

Mr. LECKIE: The simple explanation, I think, is that you can move all the bacon that is available today. The demand for bacon is such that consumers will take more than they can get, and they want to buy it steadily every week. It is a commodity that is in steady demand. It is a rather inelastic demand. There are not abundant supplies of bacon. The supply is just enough to allow the market to be in balance.

Mr. OTTO: Mr. Chairman, I am sure Mr. Leckie did not want to mislead the committee when he said that net worth, according to his interpretation, means capital investment in plant and equipment. Mr. McCutcheon asked what percentage of capital investment in the industry was represented by profit, and I believe Mr. Leckie said 3 per cent.

I think you will agree with me, Mr. Leckie, that net worth means not only the investment in the capital plant but also the undistributed profits over a great number of years, and investments in subsidiary companies. Indeed, 3 per

cent over net worth may mean 30 per cent on capital equipment, or it may mean less. I am sure you will want to clarify that and say that net worth is not necessarily the capital investment in the packing plant.

Mr. LECKIE: I certainly do not want to mislead the committee, Mr. Otto. I want to avoid that. In the first place, I said that 8.3 per cent was the calculation of net worth. Now, net worth, as you indicate, includes the book value of the capital stock plus the undistributed surplus of the company. In most cases the undistributed surplus of the company is a re-investment of the shareholders' money. Would you not agree with that, sir?

Mr. OTTO: It may be a re-investment, but, as you know, Mr. Leckie, Canada Packers may have an investment in a company producing paper which will show as an investment, but the profits which go to the paper company do not reflect. All I am saying is that Mr. McCutcheon asked you what was the percentage of the profits in relation to the capital investment in meat packing only. Do you have any figures on that? That, I believe, is what Mr. McCutcheon asked.

Mr. LECKIE: No, I took my figures from those in the Taxation Statistics published by the Department of National Revenue. Those are the only figures I have. I have given a course in elementary accounting at the agricultural college, and my definition of capital is in the formula: Assets minus liabilities equals net worth or capital. Some people, when they talk about capital, think of the original investment that somebody put into an enterprise. Now, taking any modern commercial farm, what is the capital in that farm? Is it what the farmer's forefathers paid for the acreage of land? Is that the capital investment? According to a ready definition, that would be the capital investment in the farm, but our modern definition would total up the farmer's assets and subtract his liabilities, and the difference would be the capital he actually has in his business.

Mr. OTTO: I do not want to raise this point except to clarify what net worth is. When you said it was, in your opinion, equal to capital investment, I would point out that it is really not. However, as Senator Croll has pointed out, and as Mr. McCutcheon has pointed out, we are here to find out why we are faced with this sudden inflation. From reading your brief it would seem to me that your association, like Pontius Pilot is washing its hands and saying: "We have not done this thing".

If I read page 7 correctly—I want to check this with you; are you saying at the bottom of page 7, where you outline the costs, and also in the brief in general, that this processing industry, or the packing industry, is operating as efficiently as possible, taking all things into consideration. Is that correct?

Mr. LECKIE: Well now, that is a difficult thing for me to say just where the answer would be. Probably no industry is operating at maximum efficiency.

Mr. OTTO: I did not say "maximum efficiency"; I said "as efficiently as possible under the present circumstances".

Mr. LECKIE: I would say, from my knowledge of the meat packing industry, that it is operating just as efficiently as it knows how.

Mr. OTTO: Therefore, if there was to be a reduction in your wholesale price you could not reduce your costs, and you would have to pass the reduction on to the producers? Would that follow?

Mr. LECKIE: If there was a reduction in the wholesale price it would have to be passed back to the producer? Well, the packing house has the costs of operating its plant. It has the input cost. It cannot reduce its wages, under the circumstances. It might lay off some men if there was a volume factor associated with it. But, in this case it would be more likely to come down on what is the fair value of the product. By and large, a large part of the sales

dollar of the packing plant goes into livestock. Therefore, if it can get less for its products then that is about the only place where the money can come from to pay for the livestock.

Mr. OTTO: I dare say you have read reports from producers, and this includes the Department of Agriculture, who have tried to show the committee that they are not responsible for inflation. Indeed, they say that their prices are not high. You say that your prices are not high. The producers' prices are not high, and are not the cause of inflation. You have said also in your brief that there is only one other link in the chain, and that is the retailer. Are you suggesting by innuendo, since you are not the cause of inflation, and since the producer is not the cause of inflation, that there can be only one cause, and that is the retailer.

Mr. LECKIE: Well, I am not making that statement, and if you think that is the cause then I will point out that you are going to have them here to answer questions and I shall have to leave it up to them to defend themselves.

Mr. OTTO: I have no doubt that when the retailers come here they will prove absolutely that they are not responsible.

Co-Chairman Senator CROLL: Just give me one second, Mr. Otto. Mr. Bertram Loeb, in writing to the Ottawa *Journal* on October 8, made the statement that the wholesaler and the retailer are not responsible.

Mr. OTTO: Mr. Leckie, I have no reason to doubt the brief. In fact, I think it is well done. But, can you think of anything that will help the processor or the packer to reduce his costs of processing. Is it in the field of advertising, in the field of sales, or in the field of taxation? Is there any field in which we, as a Government, can take a part in helping to reduce the cost of processing?

Mr. LECKIE: There is one area, and that would be if the industry could, by some means, support more research. That might result in some more breakthroughs. Except for one or two very large packers the average packer cannot seemingly afford to have very much of a research program. That means he has to have some assistance from some public agency.

I am thinking particularly of the modernization of plants. Some plants are right up to date, but others date back a hundred years. They have been modernized as best the packer can. You could have a modernization program for packing plant buildings if the packing plant has not the capital to do the job itself. But we are running all the stages from the most efficient buildings in any country of the world down to plants that would probably be much better off if they could start again from scratch. There are things, I think, that can be done in this area. We now have the Department of Industry that has been set up in more recent years, and it is discussing some things that might be applicable to improving the whole industry. I really think some more research would be one of the better things that could be embarked upon.

Co-Chairman Senator CROLL: That is what we are trying to do now.

Mr. OTTO: With new methods of packaging and new types of products, has your association considered ways in which you could deal directly with the consumer? In other words, have you considered direct distribution, or do you forsee a continuation for many, many years of the use of the services of the retailer? Having regard to the fact that today we have freezing plants and freezers, and methods by which meat can be kept for longer periods without freezing, and all sorts of other innovations in the technological field, has any consideration been given to direct distribution, as has been done with respect to other products?

Mr. LECKIE: From my knowledge, no, nothing concrete has been considered.

I suppose if the consumers want to set up co-operative stores of their own, it would be a possibility; but as far as the packer being a sales outlet and trying

to deal with dozens of smaller people, I do not see that that would be very practical. Retailing has a function to perform; it provides products all over the country. I cannot see the packers going into a direct mail order business or the retailing business. I think some other type of agency would have to be set up to do that in between.

Mr. OTTO: You still think there would have to be some other agency?

Mr. LECKIE: To provide all the services, the cutting up of the meat, and so on.

Co-Chairman Senator CROLL: Several are waiting to ask questions. Senator Carter?

Senator CARTER: Most of my questions have been dealt with, but I should like to ask two questions. The first is a further development of the question asked by Mr. Otto. On page 7, salaries and wages I believe this is in respect to wholesale prices shows a figure of 10.99 for the larger packer and 13.87 for the smaller packer.

Mr. LECKIE: That is correct. That is what they published in their financial report.

Senator CARTER: Can you tell us to what extent the meat packing industry is automated and what scope there is for further automation in the industry?

Mr. LECKIE: It has been automated to quite an extent in the past 20 years. There have been all kinds of conveying equipment, power tools, cutting tools of various kinds, automated packaging equipment, the Can Pack system, as it is called, for dressing beef on the rail. In automation, you are up against a push button operation like that of the oil industry, because it is not standardized work. The industry necessitates the cutting of hams, trimming meat, cutting out bones of various sizes. There is still a lot of handwork to do, and lugging and moving around the plant. A great deal of automation has occurred, but there is going to be a limit to how much automation will eventually be possible.

Senator CARTER: Have you approximated the maximum at the present time of how much will be introduced?

Mr. LECKIE: I think there will be more introduced, but how to express it economically, I do not know.

Senator CARTER: You do not think the labour content will be going down?

Mr. LECKIE: I would rather that you asked an operating packer that question. I imagine with the cost of labour that they are trying to make their operations as efficient as possible. For example, shipping operations have been streamlined where they do have push button systems.

Senator CARTER: Can you tell the committee what the experience has been over past years, whether the automation that has already been introduced has reduced the labour content to an extent; in other words, has the labour content gone down over the years with the introduction of automation?

Mr. LECKIE: The industry has been working on this. The productivity as expressed in output in respect to labour has gone up on livestock. I have not an accurate figure, but I will try to produce something for you from some of our members. I think the labour content has been going down a bit, but that has been offset to some extent by the cost of some of these high cost machines, only about 10 feet long and no larger than a piano, some of which cost $25,000.

Senator CARTER: That would be reflected in other items in your table, though?

Mr. LECKIE: Yes.

Senator CARTER: Would you tell the committee a little more about the bargaining process that you described earlier, where the retailers get together

and bargain with the packers and try to arrive at a price? How often does that take place, two or three times a year?

Mr. LECKIE: Oh, no, no.

Senator CARTER: Has that been going on frequently?

Mr. LECKIE: When I say bargaining, what I meant was dickering, negotiating for a price. This goes on weekly, and within a week, whenever the retailers are arranging their sales for the week, getting ready for advertising in mid-week in the food pages. All of that has to be preceded by details worked out with the packer for supplying the meats that are to be featured. This might entail one retailer talking to several packers and trying to get a quotation and to arrive at a deal. This is not done over a long period, it goes on every week, and from day to day.

Senator CARTER: In the case of a large retailer, say like Loblaws, or one of the big general stores, who know they must have a supply, and knowing their volume in a previous year, and who must be assured of a similar or perhaps greater volume this year, how do they make sure of that volume, do they place orders in advance to make sure they have the volume for the supply they need?

Mr. LECKIE: They do that from week to week and from day to day, except canned meats. I have never sat in on one of these deals. I only know this from general knowledge of how the industry must operate.

Senator CARTER: On page 6 at the end of the first paragraph you say that the industry over a period of years has shown a net earning equal to one per cent on sales, or less. Does that one per cent apply to all the meat packers and processors in Canada?

Mr. LECKIE: No, not to our members. I was taking all the ones recovered in the taxation statistics, and it is an average of them all. Some might make a little more, and some, as shown by that one packer, less. That is based on government taxation reports.

Senator CARTER: But the calculation was made on the wholesale price?

Mr. LECKIE: On the selling price of the packer. That is their sales figure related to their net earning figure, which would be a wholesale figure, yes.

Co-Chairman Senator CROLL: Am I wrong in reminding myself that the last statement, as I recall, showed that Canada Packers had 29 per cent increase in profit last year?

Mr. LECKIE: Their last report showed 1.13 per cent on sales.

Co-Chairman Senator CROLL: Which was the other one which showed a profit of .15?

Mr. LECKIE: Since it is a published document, it is Essex Packers, in Hamilton.

Mr. MCCUTCHEON: Following up the question you posed about the percentage of profit by Canada Packers, according to information from *The Financial Post* on net sales in the year 1957, Canada Packers sold $467,187,000 and had a net profit of $4,406,000. In 1965, on net sales of $615,000,000—roughly an increase of one-third over 1957, their net profit picture was $8,112,000—an increase of almost 50 per cent.

Co-Chairman Senator CROLL: From $4 million to $8 million is 100 per cent is it not?

Mr. MCCUTCHEON: I am the conservative type. Will you comment on that, Mr. Leckie? Does it seem unreasonable?

Mr. LECKIE: Are you referring to the article in *The Financial Post* of 100 leading companies in Canada? Canada Packers is the only packer that made the

100 list, and it was seventh in volume of control sales of all manufacturing companies, and fifty-first in earnings and fifty-first in net worth.

Co-Chairman Senator CROLL: And you say you have not too much knowledge of the industry, Mr. Leckie.

Mr. LECKIE: I generally look for those things, but I will not speak for Canada Packers as to whether they feel the profit is right.

Senator MCDONALD: From this little pamphlet you gave us today I notice the list of members of the Meat Packers Council. Is it fair to ask how the council is financed?

Mr. LECKIE: It is financed by those members. There are some not on the list—Burns Foods Limited, and H.-St. Jean et fils of St. Hyacinthe. We have an executive committee which determines the annual budget and the members contribute to our budget pro rata.

Senator MCDONALD: Pro rata?

Mr. LECKIE: Based on the size of the companies. They do not pay a flat amount. I do not think you would want to know the technical way we collect it.

Senator MCDONALD: The larger the company the more money they pay in in the annual fee? Is it fair to ask you what your budget is per year?

Mr. LECKIE: We do not publish it. I would sooner not say, but this is a parliamentary committee and if you really want me to tell you—you would be surprised how small it is. It is not much over $100,000, I would say that; and we have five full-time men and five girls on our staff.

Senator MCDONALD: Thank you very much, and I am not surprised. You told us earlier in your evidence how the packing plants sold their meat, in other words the buyers come from the stores and select the meat daily, coming to the packing plant, discussing prices and quotations, and that the companies finally arrive at a price they should give. Are there occasions when there is more than one general store represented by one buyer?

Mr. LECKIE: In dealing with the individual companies?

Senator MCDONALD: Yes?

Mr. LECKIE: I frankly cannot tell you, because I do not get involved in this operation at all.

Senator MCDONALD: There is nothing to prevent one buyer acting for Loblaws, Dominion Stores, and so on?

Mr. LECKIE: You mean, one man representing several chains? I have no personal knowledge, but I am sure that is not the case, but I have no personal knowledge.

Senator MCDONALD: But you are sure it is not the case?

Mr. LECKIE: I should not say I am, because I do not know; but I would be very much surprised if this was ever the case.

Senator MCDONALD: You also gave evidence to the effect that the packing industry is very volatile and they do not know from week to week what they would have to pay for their meat, buying from the producer, and they did not know what they are going to have to sell it at. I can understand that. You said it is a very competitive industry. Why would it be that some large packing plants, when their buyers sit in the ring at a market, the men sit there all day and never buy an animal; yet three days later they come back and buy them all. Why would that be?

Mr. LECKIE: I do not know, unless they thought the prices were too high for what they thought they could get for meat. That is the only reason I would suggest. It might not be the right quality for their requirements—however, if

there were all qualities, that argument would be washed out. I suppose there are times when the buyers feel things have got out of hand.

Senator McDonald: If one buyer came for all, that would answer it.

Mr. Leckie: Possibly there might be some difference in the way their sales forces is operating, or in the instructions in regard to their beef or their meat production at the time. I have no knowledge whatsoever of this operation.

Senator McDonald: Have you any knowledge of the amount of business done by member firms of your association, the percentage of the total livestock sales in Canada?

Mr. Leckie: Just going by the overall figures of taxation statistics, what the total sales are, and by the estimates of the meat output, and so on. I have not got a specific figure but I suppose it is high—two thirds to three-quarters.

Senator McDonald: Not that; could you tell me what percentage of all the beef that is bought in the markets of Canada is purchased by Canada Packers?

Mr. Leckie: I cannot tell you that.

Co-Chairman Senator Croll: Can you tell what percentage of beef is purchased by your membership? Would you say it is less than 90 per cent?

Mr. Leckie: We do not get slaughter figures from our members. This is available from official sources here in Ottawa, if you want to get that information. I think it was filed a few years ago, in another investigation, in a report.

Co-Chairman Senator Croll: What did it indicate then?

Mr. Leckie: I have not got a copy of it here. That investigation was at the time of the Canada Packers merger. I think the figures in that book are generally available.

Co-Chairman Senator Croll: If you have got them, give them to us, if you don't mind.

Mr. Leckie: Of the commercial supply, the figures in that book, 1957, were 30 per cent for cattle, 27 per cent calves, 36 per cent sheep and lambs and 25 per cent of the hogs.

Senator McDonald: That is for Canada Packers?

Mr. Leckie: In 1957, in that investigation.

Senator McDonald: You must have this information, or how do you assess your members for their annual levy?

Mr. Leckie: We do not assess them on slaughterings.

Mr. Olson: Not slaughterings—didn't you say on sales?

Mr. Leckie: We do not assess them on sales, either. It is on the size of their work force. It is very simple—on hours worked.

Senator McDonald: Earlier on you told us that bacon was graded into one, two, three. Is this not normal that bacon would not appear in the retail outlet as grade one, two or three: it appears as brand so and so rather than the actual grade one, two or three?

Mr. Leckie: Yes, I did not say it was not graded—I said there was no Government grading. The packers make selections, under first brand, second brand, and so on.

Senator McDonald: But the general public might not recognize that this is the third brand? It is not actually marked one, two, three?

Mr. Leckie: It is not marked, but anyone who does not know the leading brands of—Canada Packers, Swift's or others—well, they could just look at the price and they would see, too.

Senator McDONALD: There is another packing plant in Brandon, Manitoba. I think it is called the Pool Packers?

Mr. LECKIE: That is one I should have mentioned. They are not presently members of the council but we hope they will become members.

Senator McDONALD: They are operating?

Mr. LECKIE: Yes.

Mr. SMITH (*Simcoe*): I think some of the figures you have been looking for were given in the inquiry into the humane slaughter of animals a few years ago and in that case the large packers had a somewhat different interest from what they have in this hearing. You mentioned, on page 5, the general disappearance of beef and pork. Presumably it is beef and pork that is consumed, but not through the larger or recognized packers. In your opinion, does the small processor, the small slaughterer, who slaughters primarily for one or two firms, or slaughters for the freezer trade, does he have any significance, or does his operation have any significance on the general price of beef and pork, the retail price?

Mr. LECKIE: I do not think it would have a very big impact on it, because if he only supplies one or two stores he does not get into the main figure. When you see prices quoted through a general wholesaler trade by the major retailers, you would not get those as being prices quoted by anybody. Therefore, if the small store now was selling beef quite a bit cheaper than anybody else, the reaction of consumers to that situation would naturally be a force in the market.

Mr. SMITH (*Simcoe*): Have you anything on the volume of the consumed beef and pork that does into the sort of small market and the off market?

Mr. LECKIE: Well, about 80 per cent overall of our output goes through inspected channels and about 20 per cent does not. The other 20 per cent includes quite a wide variety of people under provincial or municipal inspection as well as just farm slaughterers, or people in the country who have their own slaughtering houses and who sell meat on the roadside. But this accounts for only about 10 or 15 per cent. It is in that area.

Mr. SMITH (*Simcoe*): The sale of bacon is something which concerns everyone at the present time. Is there a comparatively small number of your members who process and sell bacon?

Mr. LECKIE: No. A very large part of them do. There are a few exceptions; for instance, farms that are mainly beef processors, like Coorsh, which do not put out bacon. Another such firm would be Shopsy's. However, most other members put out bacon, if they kill hogs. Practically all of them do.

Mr. SMITH (*Simcoe*): Are there any firms that kill hogs in substantial quantities and sell the back part of the hogs?

Mr. LECKIE: Not members of our Council. Some of them either export or sell bellies to somebody else, if they have a surplus, but all of our members who kill hogs certainly produce bacon.

Co-Chairman Senator CROLL: I misunderstood one question, Mr. Smith, if you do not mind. Did I understand Mr. Smith to ask you, Mr. Leckie, how many members were processors?

Mr. SMITH (*Simcoe*): No, I did not ask that.

Co-Chairman Senator CROLL: May I ask that? How many are processors?

Mr. LECKIE: I think we have 6 processor members, and the balance are slaughtering packers.

Mr. OLSON: Mr. Leckie, I have only three questions here. You said in your remarks that there was a cost factor involved in packing, because of an excess capacity. You also suggested, I think, that this excess capacity in the other

packers, other than Canada Packers, was sufficient to take care of the consumer demand while Canada Packers were on strike. Would you suggest, then, that if Canada Packers are processing or are packing about 30 per cent of the total, there is about a 30 per cent over capacity of plant establishment in Canada.

Mr. LECKIE: If what you said is correct, that is an absolute straight deduction which would be correct.

Mr. OLSON: Do you have any estimate of how much this adds to the cost of the finished product to the consumer because of carrying this excess capacity?

Mr. LECKIE: As I explained, the capacity is not something that is sitting there with a whole tremendous investment of facilities that are not used, if you have not got enough to go through that. You increase to capacity by hiring more people, putting on extra gangs and working overtime. The only bottleneck is whether you have enough cooler space. You have to have some excess capacity in cooler space, if you want to do this.

Mr. OLSON: I may have misunderstood you, but I thought you said that this excess capacity was a significant, maybe not major but significant, factor in the cost.

Mr. LECKIE: I think it is. I think it is a significant factor in the industry. However, if you want competition, who are you going to put out of business? And in a situation like the Canada Packers strike, it came in very handy. However, if hog output were to increase by 20 per cent next year, as has happened in the past, you would need this capacity. So, if the capacity is there to handle these occasional peaks that we have in livestock products, then it is not something you can dispense with entirely.

Mr. OLSON: On balance it may not add greatly to the cost over the long-run.

Mr. LECKIE: I think it adds to the competitive factor in the industry, if you want my frank opinion. Where there is an excess capacity and everybody is trying to get enough livestock to slaughter, that is where you get competitive markets.

Mr. OLSON: My point is this: I thought you were trying to advance this as a significant reason for the cost to the consumer. However, on balance, you now think it may be an advantage to the consumer rather than a disadvantage.

Mr. LECKIE: On balance to the producers I think it is an advantage.

Mr. OLSON: What about to the consumer?

Mr. LECKIE: I do not know what the effect on the consumer would be. If it is a good thing for the producer and shoves up the cost of the livestock, it obviously might not be a good thing for the consumer. However, it is a good thing to have enough capacity to do a good job, but this is a matter on which there could be a really scientific study.

Mr. OLSON: Mr. Chairman, my second question is this. On page 3 of your submission, Mr. Leckie, you say, under major characteristics of the meat industry, in item No. 1, that the industry's main limiting factor, the supply of livestock for processing—and here you use four very significant words—is beyond its control. I want to ask you this: do the packers, some of the major packers particularly, not have some control over supply through three or four things, for example, integration, where they are involved in production of livestock—sometimes poultry, sometimes hogs? And there is beef division and hog division, particularly of contract feeding, because I understand that Canada Packers, Burns, Swift's and maybe others have major feed divisions, and I am just wondering how you therefore advance the argument that supply is beyond their control, when they are involved in all of these things.

Mr. LECKIE: Oh! there has been a lot of talk of integration. I have written papers on the subject myself and delivered them to some of the societies I belong to. Actually, the amount to which packers are directly involved in livestock production and feeding is extremely small in relation to the total. One good reason is that the cost of becoming involved in the production of cattle and livestock or hogs, and to keep a plant operating, would simply be prohibitive. There is little contracting done, as you mentioned, in connection with hog feed enterprises, not only companies that handle feed but others. I do not think this is a major factor at all.

Mr. OLSON: Mr. Leckie, there has been an introduction very recently of buying and selling beef futures in the United States.

Mr. LECKIE: Yes.

Mr. OLSON: Has this had any appreciable effect on our market and stabilized it, or has it had any adverse effects insofar as the consumer is concerned.

Mr. LECKIE: Well, this is still under study, if you want my opinion just as an agricultural economist, I do not think it has had any adverse effect. If it has had any effect at all, I think it might be a good one. I do not know if it has had a direct, tremendous effect in Canada, but, as I said before and I will stand by it, what happens in the United States livestock meat picture has some relevance to us, and it is an interesting development there, and I think that by and large it is not a bad development.

Mr. OLSON: I presume, Mr. Leckie, that you would have followed these trends. Have the selling or market prices of these futures actually materialized so far as selling on spot, after several months?

Mr. LECKIE: Yes, some of the transactions have now been completed. It has gone through this cycle.

Mr. OLSON: How close did the future price get to the actual spot price when the time came?

Mr. LECKIE: I hardly like to say. I just saw the odd one reported in the *Drovers Journal*, and I do not remember. My recollection is that it was a bit off, but I would like to take a look at that further. I would not like to give you a snap judgment.

Mr. OLSON: You do not think it has been operating long enough?

Mr. LECKIE: I do not think it has been operating long enough to form any sweeping conclusions about it. There are two or three kinds of beef futures, carcass futures, cattle feed and also beef animal futures. There are also hog or pork futures in the United States markets, but this has not been going on for very long.

Mr. SALTSMAN: Mr. Chairman, if I might refer to page 9 in the second last paragraph, where it indicates that the meat packers have paid $27 million more this year for 452,400 fewer hogs, or 11.5 per cent more for 9 per cent fewer hogs. Can you give me some indication as to what the rise, as a percentage, has been for bacon over that period? What has been the rise of price of bacon over that period? Have they paid 11.5 per cent more?

Mr. LECKIE: Well, they have paid, as indicated there, a little over $10 more for each hog, and they have had to try to recover that from some kind of production. Now, right in the next paragraph, I give the percentage change in bacon prices cumulatively, which show 17.4 per cent higher at wholesale.

Mr. SALTSMAN: So bacon has risen 17.4 per cent higher than the cost of the hogs to the packers has gone up by 11.5 per cent. Is that correct?

Mr. LECKIE: No, the cost to the packer has not gone up 11.5 per cent. That is, they have paid 11.5 per cent more for that many fewer hogs. The wholesale

price at Toronto, where that price is based, has gone up 16.4 per cent. If you take the first six months of the year, the price was 29.5 per cent.

Mr. SALTSMAN: Can you give us the figures for the rise in price of bacon at the wholesale level over the last three years? Can you give some indication of what happened the price of bacon at the wholesale level?

Mr. LECKIE: I haven't got it here. It has been published by the Government, and the figures are available.

Mr. SALTSMAN: Now I would like to go on to page 10. This deals with the question of price elasticity in the demand for bacon. I think the inference there is that the demand for bacon is constant, that there is not too much of an increase in demand when prices are falling, and there is not too much of a decrease in demand when prices are rising. The demand is fairly constant.

Mr. LECKIE: That is what our processors tell me, and it ties in with what I am quoting. The price is relatively inelastic. If the prices go up it seems that purchases are maintained, and if the price falls the distributors find that they do not get an immediate reaction.

Mr. SALTSMAN: Are you able to provide all the bacon in demand right now, or the demand for bacon at the retail level? Does your experience show any shortage of supply in regard to supermarkets, or can you give them all the bacon they want?

Mr. LECKIE: I am not, of course, moving any of it myself.

Mr. SALTSMAN: I mean the meat packing industry itself.

Mr. LECKIE: If the price were low you could sell a little more, but that would not follow automatically or constantly. I guess the rough answer is that you could sell more bacon. There is more demanded than is being supplied.

Mr. SALTSMAN: Did you not indicate that the demand is inelastic although the price is elastic?

Mr. LECKIE: The demand is relatively inelastic.

Mr. SALTSMAN: Would it be fair to say that what is happening here is rationing by price?

Mr. LECKIE: To the extent that people would buy more bacon if it were available, that is the case.

Mr. SALTSMAN: If there appear to be shortages in the bacon supply, rather than invoke physical rationing the price goes up and the rationing is done on that basis.

Mr. LECKIE: That is a logical economic process, yes.

Mr. SALTSMAN: So the inference would be that the price of bacon to some extent does not bear a completely direct relationship to the costs to the producer?

Mr. LECKIE: That is what I have tried to point out. I think that is the case.

Co-Chairman Senator CROLL: Let us get this clear. What Mr. Saltsman said was that the retail selling price of bacon bears no relationship to the price that the producer receives. That is what he asked you, and you said yes. That is what I understood.

Mr. LECKIE: I said yes to his general proposition that if there was not quite enough to go around the price became a rationing agent and under those circumstances the price might not be directly related back to the cost of the whole hog. I tried to make that point through my whole presentation.

Mr. SALTSMAN: I thought this was inferred in your statement, and I wanted to clarify it.

Just before going on to my next question I want to nail this particular thing down. There is a tendency with bacon, whether the demand for bacon

remains constant and the supply of bacon is rather short, for the price to rise as a way of rationing the supply, in other words it becomes a means of distributing the supply. If the prices were not to rise and were to stay constant, would there be a shortage of bacon on the market?

Mr. LECKIE: I would think so. That is what I quoted from Working. In his analysis he points to some of these things very clearly.

Mr. SALTSMAN: Is this the way the market is ensuring that there will be an adequate supply of bacon on the market, by raising the price? Are they raising the price to make sure they will not run into shortages? Is this correct?

Mr. LECKIE: This is all going through a bargaining process, and I suppose that is what people are trying to do, to sell what they have. If it is limited in supply, it will let them out with what supplies they have.

Mr. SALTSMAN: If the price of bacon were to drop tomorrow by 10 cents, would there be a shortage of bacon on the market?

Mr. LECKIE: I don't know, but I would think people would take some more bacon after being accustomed to buying it at a certain price. But right now we have the situation, as I said, where my wife bought four pounds of bacon at 99 cents. Others have paid $1.39. Why did not more people take advantage of this lower price? Why didn't they run out and buy the specials?

Mr. SALTSMAN: But this is obviously a loss leader. There are other things involved that would limit the supply at that price. This would not go on day after day.

Mr. LECKIE: What you are saying is largely straight economics, and I cannot quarrel with the proposition you are advancing. It is what appears in all the economic texts.

Mr. SALTSMAN: I think it is quite important for those people who buy bacon and who cannot see a relationship between the price being paid to the producers and the price they have to pay to understand how the market mechanism works and to see that the need for bacon is causing the rise in the price of bacon. It is also important for them to see that if the housewife decided not to buy bacon for a few weeks the law of supply and demand would bring down the price of bacon.

Co-Chairman Senator CROLL: Mr. Saltsman, I am a patient man but there comes a time—what is your question?

Mr. SALTSMAN: Let me put my question this way: If people were to stop buying bacon for two weeks, the price of bacon would come down?

Mr. LECKIE: It always has, and that is an inescapable fact.

Mr. SALTSMAN: Can you see any other way of bringing down the price of bacon?

Mr. LECKIE: Yes, the simplest way is the most desirable. That is to have more hogs and more production. I cannot understand these people who think it is a good thing to start a boycott. I think what is even better is to exercise better "buymanship".

Co-Chairman Senator CROLL: Get more hogs and you will get more bacon. And then you say that if the cost of bacon was high that would be a rationing process in itself. We agree. Then, can you explain this—and this is general knowledge, so you do not have to be an expert to know—in the supermarkets the general mark-up is between 20 and 25 per cent. That is on the broad mark-up; I think we know that as a fact. Assume for a moment I am right on that. Then, can you explain to me why when the price of bacon falls, as it has, that they are obtaining more than the normal mark-up on what they are selling to the public?

Mr. LECKIE: Do you want me to answer that?

Co-Chairman Senator CROLL: Yes.

Mr. LECKIE: No, I cannot explain—if that is what happens.

Co-Chairman Senator CROLL: We are not in the "ify-ify" stage. We have established here—Olson, McCutcheon, McDonald and others have established that there were areas and times when the price of bacon fell and fell considerably. They gave you the months and the times. At the same time there is evidence here, from these people who are knowledgeable, that the price of bacon was up and never came down. What I am suggesting to you is that the normal mark-up process did not work; whatever that normal mark-up process was—whether it was 20 or 30 per cent—it did not work.

Senator McDONALD: At the retail level.

Co-Chairman Senator CROLL: At the retail level. So I ask you, as a man in business, as a Canadian citizen—and, after all, you are as much involved as the rest of us are—what is the answer to these problems? We are asking you to help us, that is all.

Mr. LECKIE: Well, Mr. Chairman, I am not in the retail business, so I do not know how they operate their retail mark-ups. I cannot give you any help at all in that field.

Mr. SALTSMAN: I would like to pursue the question of how to bring down the price of bacon. You have given the indication of increasing production. I think most people agree that this would be a good way of doing it. If we increased the production of hogs, how would this affect the producer?

Mr. LECKIE: If the increases were moderate the price of hogs probably would hold fairly well. It would depend on several other factors, including what the U.S. producers did. If they did not do any increasing we could increase quite a bit without any damage.

Mr. SALTSMAN: Would a moderate increase in the production of hogs bring down the price of bacon?

Mr. LECKIE: It depends on what you mean by "moderate".

Mr. SALTSMAN: It depends what *you* mean by "moderate".

Mr. LECKIE: 15 to 20 per cent I think would be quite a bit.

Co-Chairman Senator CROLL: Has there been a decrease in the price of bacon in the last two years and, if so, what months?

Mr. CLANCY: Yes. I bought bacon last week for 69 cents a pound.

Co-Chairman Senator CROLL: Where is this?

Mr. CLANCY: At Carlingwood, the Carlingwood shopping plaza. Perhaps it was used as a loss leader, but I bought it. It was called maple cured bacon, and there is damned little lean on it, and it is just flavoured fat.

Mr. LECKIE: Maybe it is on the way down now.

Mr. SALTSMAN: Perhaps this is also the solution, to put all the bacon buyers in buses and take them to Carlingwood.

Can you tell me about the competitive position between Canadian and Danish bacon? To what extent does Danish bacon compete with Canadian bacon right now, and to what extent is Danish bacon coming into Canada?

Mr. LECKIE: We have been trying for some time to get more up-to-date figures on imports. The D.B.S. are slow in coming out with these, and we get no up-to-date figures on imports. To my knowledge, I do not think there is any really competitive type of Danish bacon probably coming in. I have not seen any in the stores or heard of it. There was some canned bacon came in a while back; it was fairly competitive with ours; but I have not heard of canned bacon being too common lately; and Danish sides have never been coming in in recent years, to my knowledge. The biggest competitive factor is that they supply

Britain with most of their bacon requirements, and we do not have any market at all over there. That is the biggest competitive position.

Mr. SALTSMAN: What is the situation of Irish pork coming in?

Mr. LECKIE: Some came in early in 1966, during the peak period, but I have not heard of any lately.

Mr. SALTSMAN: Has your association made representations to the Canadian government regarding tariff arrangements or quotas on meat imports?

Mr. LECKIE: No, we have not. We made a submission when the GATT negotiations were in progress and our general stand is that we are not in favour of very high tariffs, except in one or two commodities where we think they do damage to the whole industry. But, by and large, we feel that relatively free trade in meats is not a bad thing.

Mr. SALTSMAN: I would like to leave that and just ask a question on packaging. In looking for ways to reduce the cost to the consumer I have been through packing plants, as I am sure you have as well, and you have seen the way bacon is sort of serrated and organized and trimmed off and put in the package. Would you say this represents a fair amount of labour in terms of preparing bacon in this way for the consumer?

Mr. LECKIE: No, it is done largely by an automatic machine where it slices it rapidly and it goes on a belt and you have some girls who have to do some hand work, but it is not a high labour proposition.

Mr. SALTSMAN: I have seen them where they have had to take one strip out and put another in.

Mr. LECKIE: They have to get the weight right.

Mr. SALTSMAN: And trim it off. It seemed to me this was one of the most intensive parts of the whole process.

Mr. LECKIE: You are probably talking about a good packaging plant in your area which pays a lot of attention to bacon; I do not know. However, this is a thing I was saying before, that you can mechanize a certain part of the operation but you still have a lot of hand work.

Mr. SALTSMAN: If instead of packaging bacon in that way we merely sliced it for correct weight and put it in a sanitary plastic bag of some type and sealed it, without any labelling or cardboard around it and stretching it out in this way, could the price be reduced to the consumer in any substantial way?

Mr. LECKIE: Yes, and I guess it could probably be reduced if you put it in layers of parchment paper; or it could be even further reduced if you shipped the slab out with the skin on and let the retailer slice it.

Mr. SALTSMAN: I am talking of giving the consumer exactly the same kind of bacon she is getting now under ideal sanitary conditions and under absolute convenience. After all, serrating bacon does not contribute to the convenience in that particular way, and putting it in a plastic bag completely sealed certainly gives the sanitation and convenience required. Under those circumstances would the price of bacon be reduced to the consumer?

Mr. LECKIE: The price of bacon could be reduced by any savings which could be made in packaging which would make it look good and be popular and an item that is handy for going in and out of refrigerators.

Mr. SALTSMAN: In view of the great demand for bacon and the resultant increase in price based on this demand, is it not a bit questionable about increasing this saleability feature of bacon to increase the demand which would probably result in a higher price because of increased demand? Is there not an intrinsic enough demand for bacon to question whether all this packaging and sales appeal is necessary?

Mr. LECKIE: Possibly, but I can only go back to when I was young and we used to buy bacon occasionally. We used to have a pack with the slices of bacon on top of one another, with a cellophane roll. The whole merchandising of bacon has helped to make it the popular commodity it is today. Its tremendous appeal began, as I have pointed out, during the last 10 or 15 years.

Mr. SALTSMAN: In the process of making it so popular it has also helped to raise the price.

Mr. LECKIE: The consumer has reacted and bought it and likes it, and the whole process depends on the consumer reaction.

Senator O'LEARY (*Antigonish-Guysborough*): Mr. Chairman, is your steering committee going to have any individual packer appear before us?

Co-Chairman Senator CROLL: Yes—

Senator O'LEARY (*Antigonish-Guysborough*): I still want to ask Mr. Leckie if he will comment on this statement. Is it not true that when a product—for example, as we have been talking about bacon, and as has been pointed out, it is pretty well generally agreed there is a higher mark-up at the present time on the part of—and I am not going to say whom, but there is a higher mark-up at the present time. This to me would also mean that there is a lesser mark-up on some other cuts of pork. In other words, there is not a consistent mark-up on the part of the packer on all cuts of pork. They vary from time to time. Would you agree with this?

Mr. LECKIE: Absolutely, but I would also say that the word "mark-up" is not a good word to apply to a packer, because he produces. He takes the whole hog and cuts it up and processes it in different ways. He prices the different portions to come out overall with a certain return. So, the producer does not sell bacon to the packer. He sells bacon as part of the carcass.

Senator O'LEARY: I am speaking of the processors and packers of the product in the context of high bacon sales. In a period of high demand the packer could take a high mark-up on that, and he could, for example, reduce his mark-up on other—

Mr. LECKIE: Yes, but relationships are changing all the time. There is no fixed relationship.

Co-Chairman Senator CROLL: I think I indicated earlier that Mr. Loeb in a public statement printed in the Ottawa *Journal* on October 8 had indicated that the wholesaler and retailer were not responsible for the increase. If it is not the primary producer—and we came to that conclusion before you came here, or I think we came to that conclusion; at least, the evidence was there—and it is not the wholesaler and it is not the retailer, I wonder if you would care to comment on this statement made by Mr. Arnold Steinberg, Vice-President of Steinberg's Limited, who told the Toronto Society of Financial Analysts last Wednesday that there are profits to be made at the manufacturing level. This report reads:

> Although the best retail food operators made only two cents profit on every dollar, "we have found that for a relatively low capital investment there is available a three, four or five-cent profit on the same dollar at the manufacturing level.

I gather that he means the processing level. Is that what you understand to be meant by "manufacturing level"? You have some six or seven processors in your organization. Have you any idea of how well they are doing in line with any anticipated profit?

Mr. LECKIE: It is generally considered, I think, by the meat industry—I know that statements are frequently made in the American meat trade journals—that there is usually a little wider margin in the straight processing operation than in the slaughtering-processing operation. A recent study in the

United States, though, found that a specialized beef slaughterer was a little better off than anyone else. After him comes the specialized processor who does not slaughter, and then the packer, who comes further down the scale. I think there is a little wider margin in processing because you are buying a more refined product, and you are adding more services to it, and the price reflects the things you add to it.

Co-Chairman Senator CROLL: So you think there might be something in the processing field that might respond to our queries about who is getting what, and how much?

Mr. LECKIE: I am not sure how to answer that question.

Co-Chairman Senator CROLL: Mr. Urie, have you any questions?

Mr. URIE: No, Mr. Chairman.

The CHAIRMAN: Then, may I, on behalf of the committee, thank you very much, Mr. Leckie. We gave you a hard time this morning, but you must appreciate that we too are having a hard day, and not just in the morning.

I remind the committee that the meeting this afternoon is at 3 o'clock, when those concerned with dairy and vegetable products in the Department of Agriculture will be present.

The committee adjourned until 3.00 p.m.

Upon resuming at 3 p.m.

Co-Chairman Senator CROLL: Gentlemen, I see a quorum. Our first witness this afternoon is Mr. D. B. Goodwillie, Director of the Dairy Products Division, and he has a memorandum, copies of which are in your hands now.

D. B. Goodwillie, Director, Dairy Products Division, Department of Agriculture: With your permission, Mr. Chairman, the statement which has been distributed consists essentially of tables, and I would like to make a few comments with respect to these Tables and on the current dairy situation.

(*see Appendix "6"*)

Milk production for the past six years has not shown any significant change. During this same period, the population has increased by over one million people, and per capita consumption has shown no pronounced change. The results of these trends are that production and consumption of milk and its products are more closely in balance than for some time.

For the past number of years Canada has exported about three per cent of its total milk production. This year if we had had all the milk in the right place, we would be able to utilize all that was produced in Canada on the domestic market.

I have said that milk production has not shown any significant change for the past six years. As a matter of fact, this year it is actually running at almost $1\frac{1}{2}$ per cent less than the past two years.

A question you might well ask is, why is milk production declining, in spite of the fact that farmers' prices have been at or near record levels in many areas of Canada during the past two years. I think there are three reasons. One is that dairying is a seven-day week job. You must milk a cow twice a day every day of the year. Secondly, farm labour has been extremely difficult to obtain. Thirdly, other farm endeavours have been as remunerative, or more so, than dairying. I am thinking particularly of wheat and beef cattle. In other words, if you can make more money with less work, this seems to be what people want these days and this is one reason why a number of farmers have gone out of the dairy business.

Another question you might well ask is, will this production trend change? We do not think it will before 1968, at the earliest. The reason we say this is that Canada has approximately 80,000 head of dairy cattle less than it had a

year ago, and it takes two or three years to build up the herd. The only reason we have been able to maintain our production over these past number of years is because of increased efficiency on the farm, better feeding and management at the farm level. This has been shown by the fact that the amount of milk per cow is now over a thousand pounds higher than it was a few years ago.

How do we normally utilize this 18.2 or 18.3 billion pounds of milk—and I am using 1965 figures. They would not change very much if it were 1966 or 1964.

The fluid milk branch of the industry reguires about 28.5 per cent. Cheese uses about 10.5 per cent. Concentrated milks, evaporated milk, ice cream, and so on, uses about 8.5 per cent. About 9 per cent is used on the farm. 43.5 per cent is used in the manufacture of butter. I would like you to keep that latter figure in mind, because almost half of the milk produced in Canada is used in the form of butter. This is why if anything happens to butter, either favourable or unfavourable, it always seems to bring out more publicity than other dairy products.

If you turn to Table I, you will see that it indicates the farm value of manufacturing milk. Farm value is what the farmer gets, and it does not include the cost of transporting this milk to the factory. Manufacturing milk means milk that is used for butter, cheese, ice cream, evaporated milk, dried milk, etc. Using the Canadian figure, from 1950 to 1963 there was little change in the producer's returns, and this is accounted for by the fact that the support level of butter was 58 cents during this whole period. It changed in 1964, when the Agricultural Stabilization Board introduced new policies. This change is reflected in the gradual increase in the farmer returns. Under Quebec for 1965 you will notice the figure $3.22 cents. One main reason for this is that the Government of Quebec introduced their provincial subsidy of 17½ cents or 35 cents, depending on the time of the year. These figures do not take into account any supplemental or subsidy payments by federal government.

In Table II we have simply extended this to compare 1965 with 1966. If you care to take the 1966 figure for Canada, that is, 2.95 for July, add 75 cents to it, this is approximately the average price in Canada that the farmer is getting f.o.b. the farm.

Table III shows some average wholesale prices. The first is "Butter—solids first grade." I will explain that "solids" is the common way in which butter is sold at wholesale level; that is, a 56 pound block of butter in a package, which has to be printed, or cut into one pound prints before being sold and delivered to the retailer. You will note that in 1950 the wholesale price in Montreal of first grade butter was 56⅞ cents while in 1965 it was 54½ cents.

From 1950 to early in 1958 the support price of butter was 58 cents. The price was advanced in 1958 to 64 cents and it has continued ever since, except that in 1962 the Government reduced the selling price of butter by 12 cents a pound and this is reflected in the 1963 figure.

In cheddar cheese, first grade—this is in the 90 pounds traditional size cheese, that is one of the common types at the wholesale level. This price has advanced since 1959 from 29½ cents to 40 cents, f.o.b. Belleville, The Belleville cheese exchange accounts for most of the cheese sold at the wholesale level in Canada. One of the reasons for the increase in price from 1962 to the present time has been brought about by two things, the action of the Ontario Marketing Board, not federal action, and the rising supply-demand situation, both at home and abroad. We have been able to sell cheese on the export market at the highest prices on record during the last two years.

In the case of spray dry skim milk, this is spray process skim milk powder, the type of powder most commonly used in Canada and the type that is sold in the instant form in the retail stores—the only significant price change here

occurred in 1962 when powder dropped to eight cents. This shows what happened to prices when government stepped out of the picture. Prior to 1962, dry skim milk was supported, either by an offer to purchase, by tender, or for relief purposes. In 1962 this was removed and with the heavy production all over the world, including Canada, the price fell to the normal—I should not say "normal"—it fell to a very low or postwar level of eight cents. This has since come back, as you can see, in 1965.

In Table IV we have extended these prices into 1965-1966. If you will note, in butter, how remarkably uniform the wholesale price of this product has been. Even at 59 cents, gentlemen, the price of butter today is three cents lower than it was in 1958 and only three cents higher than it was in 1950.

In cheese there has been some increase in the price this year over last year and this again is the supply-demand reflection.

The same occurs in regard to the price of spray skim milk, it is up three cents per pound. This is partly due to increased world demand for dry milk and also the support program by the Agricultural Products Board.

In Table V is shown the farm value of fluid milk, or milk that is sold in the bottle. There has been a gradual increase in the farm value of this product. I would like to say, right at this time, that the federal Department of Agriculture has little or no jurisdiction over the production and sale of fluid milk as such. This product is largely, under the control of provincial milk boards, and the jurisdiction of these boards varies even within the province.

I mention that because I am not as familiar with the details of fluid milk marketing operations as I am with some of the others.

Table VI simply extends and shows the current price for 1965 and 1966.

The last table, Table VII, is a conversion table, to give you an approximate idea of how much butter, cheese, evaporated milk, etcetera you can obtain from 100 pounds of fluid milk.

That, Mr. Chairman, is my summation of the industry.

Mr. CLANCY: This refers to dry skim milk as we get it from the barrel. How many pounds in a barrel?

Mr. GOODWILLIE: Prior to 1956 the normal container for dry skim milk was the 200-pound barrel, the wooden barrel. This has now gone by the boards and I do not think you can find a barrel today. We have gone into the polyethylene lined paper bag, of which each bag contains 50 pounds. I do not think you could get labour to handle the 200-pounds barrel today.

Mr. CLANCY: I just wanted to get that on the record.

Mr. GOODWILLIE: These are prices per pound.

Mr. CODE: That is the figure for 1965?

Mr. GOODWILLIE: No, per pound, per bag of 50 pounds.

Co-Chairman Senator CROLL: To what do you attribute the price stability of butter? You have indicated that it has had a remarkable stability for a considerable length of time. Is it planning. Has the Government had any finger in it?

Mr. GOODWILLIE: Back in 1949 the Government saw fit to take the speculation out of butter. You will recall that, prior to that time, someone had to store butter in the summer because we do not produce enough butter during the winter months. It was also alleged that the speculator made the money: he bought the butter low in June, July and August and sold it high during the winter months. In 1949-50 Government policy was devised that they would put a floor price, a support price, on butter so that the speculation would be taken out of the product and the consumer would have the same price for butter all the year round, regardless of the season.

There is another good point in why this policy was put into effect—at least I think so—that is, that during the summer is the time when the farmer has most cream or milk to sell and that is when the price used to be the lowest. In the winter time when he did not have very much to sell the price was usually higher. This policy has been carried on since 1949 to the present time.

Co-Chairman Senator CROLL: From your answers, you appear to indicate that it has been beneficial to the farmer and to the consumer.

Mr. GOODWILLIE: This is the general opinion of most people in the trade.

Mr. URIE: You mentioned that 43.5 per cent of the total milk production is used in the form of butter. That is, at the present time.

Mr. GOODWILLIE: That is right.

Mr. URIE: Is that roughly the same figure as previously, for a good number of years?

Mr. GOODWILLIE: Yes, a little lower, probably, but it has varied between 43½ and 46 per cent for a number of years.

Mr. URIE: I see. You have given the farm value of milk per hundredweight. Would it be possible for you to estimate—it seems fairly stable, though it has gone up in the last year or two—would it be possible for you to estimate the increased cost to the farmer for production of one hundredweight of milk during that period 1950 to 1956?

Mr. GOODWILLIE: I am not in a position to answer that, sir.

Mr. URIE: In regard to the overall production of milk, has it increased or decreased during that period of time?

Mr. GOODWILLIE: The production of milk is estimated to be this year 18.2 billion pounds and I think in 1950, it was about—

Mr. S. B. WILLIAMS: I think it is fair to say that it increased for a while and in recent years it has remained almost stable.

Mr. URIE: Which would lead one to the conclusion that the farmer is reasonably satisfied with the prices he has obtained, because he has not decreased.

Mr. WILLIAMS: It would lead to that conclusion, or that he is locked into a position where he has no alternative. You may recall that in my original presentation I said that in all the agricultural enterprises the least flexible was dairying production, that the capitalization he has has pretty well married him to the production of milk. If a fellow is growing potatoes he can change next year and, provided his climate is right, he can grow some other crop. This is not true of the dairy farmer. He is tied, because his capital is tied pretty well to a single type operation.

Mr. URIE: Has the nature of the industry changed? Has it gone from a large number of small producers to a small number of large producers, to counteract the trend?

Mr. WILLIAMS: In general, no. There has been some tendency in that direction but it has not been nearly as significant as it has been in some other phases of agriculture.

Mr. GOODWILLIE: To answer your question on milk produced, sir, in 1950 we produced 15.3 billion pounds. In 1966 we think it is going to be about 18.2 billion. This is the total milk produced whether sold or used on the farm.

Co-Chairman Senator CROLL: Look at Table IV, for a minute, please. In January, 1965, 53¢ represented the price to the farmer. Right?

Mr. GOODWILLIE: No.

Co-Chairman Senator CROLL: What is that, then?

Mr. GOODWILLIE: This is the wholesale price.

Co-Chairman Senator CROLL: Well, the retail price—

Mr. GOODWILLIE: No, these are all wholesale prices.

Co-Chairman Senator CROLL: I am not saying that the retail price was 59.9. Right?

Mr. GOODWILLIE: I do not know. Where did you get that figure?

Co-Chairman Senator CROLL: From the Dominion Bureau of Statistics. That is where I got it. All right?

Mr. GOODWILLIE: All right.

Co-Chairman Senator CROLL: That means that there is a difference of 6.9.

Mr. GOODWILLIE: Yes.

Co-Chairman Senator CROLL: In 1966, July, the figure is 59. Right?

Mr. GOODWILLIE: That is right.

Co-Chairman Senator CROLL: The Dominion Bureau of Statistics says that it is 67.3. That is a spread of 8.3 as against the spread of 6.9. How do you explain it? Why? Who got it?

Mr. GOODWILLIE: Would you buy the same reasoning for October 8, which is last week, sir?

Co-Chairman Senator CROLL: Yes, I will buy it.

Mr. GOODWILLIE: All right. The wholesale price of butter in Toronto is 61. The wholesale price of prints, that is a one pound print that is sold wholesale, varies from 62½ to 68½ and the retail price in that same market is varying today from 63 to 77.

Now, I am not going to try and explain the spread here, other than to say: is it a volume is it a package, is it packed in quarter pounds, is it a special type of butter, or is it in a carton. These are all factors in this.

Co-Chairman Senator CROLL: You are very helpful to us here. You are really giving us the lowdown.

Mr. SALTSMAN: I have just one supplementary question.

Co-Chairman Senator CROLL: A question?

Mr. SALTSMAN: A short one, yes.

Co-Chairman Senator CROLL: All right.

Mr. SALTSMAN: Is there any difference in the mark up on the price of butter, depending on whether it carries a name brand of a national dairy or a well-known dairy as against carrying the brand name of the store that is actually selling it? In other words, is there any difference between the store name and the national brand? Can you detect any difference in price?

Mr. GOODWILLIE: Let me answer that question: when the Government raised the price of butter two cents a pound on the 9th of September, one of the larger chains immediately sold butter at 59¢, a loss leader for that week. I do not think there is much difference between a private brand and a nationally advertised brand, if it is the same quality butter packed in the same type of container.

There is one organization that has followed the policy of charging one cent a pound more for a particular brand, and this type of butter is usually a higher scoring or higher quality butter.

Mr. MCCUTCHEON: I wonder if somebody could tell me what the retail price of a quart of milk was in 1950.

Co-Chairman Senator CROLL: 1950?

Mr. MCCUTCHEON: Yes.

Mr. GOODWILLIE: Wait a minute. I do not know if I have that information.

Co-Chairman Senator CROLL: I think we have a fund of information here. He will get it for you.

Mr. GOODWILLIE: You are more optimistic than I am.

Mr. WILLIAMS: Sir, if I may answer the question, Mr. McCutcheon, I cannot give you 1950. Would you settle for 1949?

Mr. McCUTCHEON: Yes, I would.

Mr. WILLIAMS: I have a Dominion Bureau of Statistics figure here that shows that the price in July, 1966, was 27.2c. a quart, which was 152.7 per cent of the 1949 price. Therefore, if we reduce that by two thirds, it means it was approximately 18. something cents in 1949.

Mr. McCUTCHEON: Yes. Thank you. Now, my question is this: the farm value of milk, using the table of 39 quarts in a hundred pounds, works out to 10c. a quart at the farm in 1949-50. It sold at the retail level at 18c. Milk today is 13-14c. at the farm level and is selling for 27.2c. Is somebody making too much money in here?

Mr. GOODWILLIE: I am glad you asked that question. We received this afternoon a study of the dairy industry in British Columbia, which is as recent as September, 1966. I want to quote from it. This is for December, 1964. They show that the gross profit on a quart of milk in the Vancouver area was 11.7c.

Mr. McCUTCHEON: What was that figure?

Mr. GOODWILLIE: For the year ending December 31, 1964, the gross profit was 11.70c. Deducting processing-packaging, 4.98c., selling-advertising, .93, delivery, 5.23, the total is 12.08, and it showed a net operating loss of .38 cents per quart.

Let me qualify that.

Mr. McCUTCHEON: I hoped you would.

Mr. GOODWILLIE: I am quoting from this study:

> This is not to be implied as an assessment of the profitability as a whole, and no attempt has been made in this study to do so but this analysis does indicate the dairy industry in British Columbia tends to operate its largest activity at near a break-even point.

This is why I read this to you rather than try to answer your question.

Mr. SALTSMAN: Could we have those figures again.

Co-Chairman Senator CROLL: One figure here struck me as rather high: delivery, 5.2c. That seems a very high figure for a quart of milk.

Mr. McCUTCHEON: The poor old cow is doing it all for 13c.

Co-Chairman Senator CROLL: Most of the milk as I understand it, is picked up at the chain store. The amount of delivery is less and less, but that is their figure.

Mr. GOODWILLIE: That is right.

Co-Chairman Senator CROLL: What is your own view from that figure for delivery?

Mr. GOODWILLIE: Let us go back to the Report of the Royal Commission on Price Spreads in Food. This is the farm retail spread of fluid milk. In 1961 the farmer's share was 53.7 per cent. This has not varied materially. In 1950 it was 56.7. In 1961 it was 53.7. I do not know what it is for 1965. Oh, it is 53.2, Mr. Williams tells me, for 1965.

Mr. WILLIAMS: 53.2.

Mr. GOODWILLIE: So it has not varied very much.

Co-Chairman Senator CROLL: Mr. Cameron, would you like to get in a question?

Mr. CAMERON: Yes. You were saying in your opening remarks that the production of milk had not increased perceptibly in the last several years.

Mr. GOODWILLIE: In the last six years.

Mr. CAMERON: It had been about the same volume. I wonder if you could give us any idea of increased productivity of dairy farms. Have you any figures on the number of people employed in production?

Mr. GOODWILLIE: I will try to get the production per cow for you.

Mr. WILLIAMS: I have it here. I wonder if we could go on to another question until we get that information.

Co-Chairman Senator CROLL: No, no. Take your time. The members are thinking about it.

Mr. GOODWILLIE: The average milk production per cow in 1950 was 4.9 thousand pounds, and in 1964, it was 6.3 thousand. The herd size will give some idea of this operation; 69.3 per cent of the farms had one to seven cows; 18.7 per cent had eight to 12 cows, and 12 per cent had 13 cows and over. That is the figure for Canada.

Mr. McCUTCHEON: I notice by Table V that the increase in the farm value of fluid milk per hundredweight from 1950 to 1965 is $1.10 per hundredweight. At the same time I see from the D.B.S. figures that the cost-of-living index between 1949 and 1966 has gone up 44 points. One assumes, therefore, that the 1966 dollar has somewhat more than two-thirds the purchasing value of the 1950 dollar, but the farmer is receiving less than one-third more in dollars in 1966 than in 1950. Would this indicate that this could be one of the reasons that milk production has not been increasing to accommodate itself to the increase in population?

Mr. WILLIAMS: I think that is a very fair statement. Up until this year, 1966, in general the returns to farmers for milk increased at a slower rate than did the cost of the goods and services he had to purchase. This year, the rate was approximately the same in so far as manufacturing milk was concerned, based largely on Government policy implemented on the 1st April this year.

Mr. OLSON: Are you discussing now the years between 1966 and 1955 or the average back to 1950?

Mr. WILLIAMS: Taking the overall average back, the figure in 1965 was the first significant rise in prices. The situation is that while there were fairly large expenditures of Government funds to bolster the industry, these were related to the accumulation of surpluses for disposal. Starting in 1965, however, surpluses were disposed of and it was possible to use the funds to supplement the farmer's income rather than to buy up surpluses produced and get rid of them some place. This has been particularly true in the current year. In addition there have been additional funds available by virtue of the provisions for stabilization of agricultural production.

Mr. CAMERON: With regard to what I was asking about in Table V and Table VI—farm value of fluid milk—is this for the fluid milk market or is it for the whole production of milk?

Mr. GOODWILLIE: This is for the fluid milk market, for the quota milk market.

Mr. SALTSMAN: What effect will the lower price on other than fluid milk have on the fluid milk market? I presume that the fluid milk market and the market for other milk are drawing closer together, that is that the price for fluid milk and the price for milk used otherwise are drawing closer together.

Mr. WILLIAMS: I think one has to qualify any statement made in regard to this. In general the position of manufacturing milk has improved at a slightly faster rate. In addition to that, with the dairy support programs for this year,

the assistance of the direct payment is extended to part of the fluid producer's surplus production, that is the average price he gets for his whole production has increased. I think you will appreciate we have fluid milk producers in this country who are getting the top price for essentially all their product and we have those down as low as 30 or 40 per cent. Obviously their average price is below those who have 100 per cent quota. This year, as a result of Government policies, the position of the fluid milk producer has improved rapidly in that the federal subsidy extends to some of the fluid milk surpluses.

Mr. SALTSMAN: You don't anticipate a change taking place as between the two?

Mr. WILLIAMS: I think the market for fluid milk will continue to be the most satisfactory—that is vis-a-vis the manufacturing market which is a residual market, despite the fact that the total market for manufacturing milk is much greater. The last analysis by the Agricultural Stabilization Board indicated that in terms of dollars the fluid milk producer received a much greater proportion of the total dollars going to buy milk than did the manufacturing milk shipper.

Mr. SALTSMAN: I come now to a question on butter. Are there still regulations on the use of margarine? I understand some provinces had regulations regarding colouring and things like that.

Mr. GOODWILLIE: The manufacture and sale of margarine is legal in every province in Canada at the present time. Some provinces have restrictions as to the amount of colouring that may be used. British Columbia and Newfoundland have no such regulations, but the other provinces say it must be coloured only to a certain extent.

Mr. MCCUTCHEON: Do you foresee, as many experts have written in the press recently, a shortage of milk developing in this country?

Mr. GOODWILLIE: A shortage of milk?

Mr. MCCUTCHEON: A shortage of dairy products generally. Mr. Williams said more fluid milk would be available with less available for manufacture, and I would buy that 100 per cent. But do you foresee a shortage in the dairy industry?

Mr. WILLIAMS: That is a question that cannot be answered without some knowledge of what Government policy will be in future years. The situation existing at the present time is largely a result of Government policy. I would venture to say that with the continuance of the type of policy—and I am not talking about the level, but about continuing the type of policy in effect in past years—that probably there should not be a shortage. We speak of a very complex matter when we speak about shortages. At the present time, for example, while we probably could use much more butter in Canada than we do use, we are exporting butterfat in the form of cheese to the United Kingdom. As Mr. Goodwillie pointed out earlier, at the present time there may be certain local shortages of some things, and this may be an inherent defect of the trade, because of the use of the raw material for a great many end purposes. We must also keep in mind that the facilities for production vary in certain areas. For example, we could have a very good season in our main cheese producing areas—and now I am speaking climatically—which could result in quite a lot of cheese being available and in fact could result in a surplus of cheese, but at the same time it might be a poor season in our main cream shipping areas which could result in a deficiency of butter. And yet the net position across the country would still be one of reasonable balance.

Mr. MCCUTCHEON: We were led to believe by the farmers' union and the Federation of Agriculture that the average age of dairy operators in Canada is getting pretty high and that the business is waning. This is why I asked that

question. Are we faced with this problem? It may not be relevant to what we are talking about now, but I do think it has a bearing.

Mr. WILLIAMS: I can answer that in part, not with respect to age, though we could give you the information on that. Up until the time the dairy policy for the current support year was announced there was a very significant increase in the number of animals being sold into export, mainly to the United States, and the number of animals of dairy type going for slaughter in Canada. With the announcement of the dairy policy for the current year the rate of movement and the rate of slaughter almost immediately reverted to approximately the normal rate. Once again, there were complicating factors in that in eastern Canada we had drought conditions last year and feed was short, and some of the liquidation could easily have been associated with the difficulty people had carrying cattle through the winter until spring because of the feed situation.

Mr. MCCUTCHEON: Out in B.C. the dairy operators, I take it, operate for nothing. The farmer out there apparently is a prosperous individual. Is there a difference? What do they do? Do they sell their cows off or increase their herds? I am a little confused about this.

Mr. GOODWILLIE: The dairy farmer in B.C. is in a rather fortunate position compared to other parts of Canada. Over 50 per cent of the milk produced in B.C. is used in the fluid trade, which is in the six-dollar market.

Mr. WILLIAMS: For the Province of Quebec it is somewhat less than 30 per cent goes to fluid.

Co-Chairman Senator CROLL: Are those the two extremes?

Mr. WILLIAMS: Yes, I believe they would be. I would want to have those figures corroborated though.

Mr. GOODWILLIE: Newfoundland would be the lowest.

Mr. WILLIAMS: I believe all the fresh milk in Newfoundland goes to the fluid milk trade, and I believe at present the price to the producer is $9 a hundred.

Mr. GOODWILLIE: In 1965, last year, in British Columbia it was 58.4 per cent fluid; in Prince Edward Island it was 9.5. I do not know what Newfoundland is. In Quebec it is 24.4.

Mr. WILLIAMS: So the net return on fluid to the producer within a province varies greatly. Another point I think one must have to consider is that essentially there is no segregation between the manufacturing milk trade and the fluid milk trade in British Columbia. It is a modified form of pooling, but it is, in essence, pooling.

Mr. MCCUTCHEON: In other words, that would get away from the spread of the 3.06 and the 5.01?

Mr. WILLIAMS: In part, it does. It is not a complete pool. I could explain the differences, but it is not a complete pool.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have you any figures as to the proportion of the total milk production in B.C. which is handled by the Fraser Valley Milk Producers and the Vancouver Island Milk Producers?

Mr. GOODWILLIE: We could give you the amount produced in British Columbia.

Mr. WILLIAMS: We can obtain those figures.

Mr. CAMERON *Nanaimo-Cowichan-The Islands*): I think you will find this significant.

Mr. WILLIAMS: Yes, there is no doubt about it at all. When the Agricultural Stabilization Board had a different program, where we paid on the actual butter

produced, there was only one place in British Columbia where we made any payments of any significance, which was to Fraser Valley. Even in the case of other major milk sheds their production was such that there was hardly any left to make butter for assistance under the program.

Mr. CLANCY: Take Table IV, these prices per hundredweight. This is when he is delivering the standard 3.5. per cent butterfat?

Mr. GOODWILLIE: This whole thing is based on 3.5. Some will be 3.8, some 3.4. and some 2.9. The bench mark is 3.5. per cent.

Mr. CLANCY: So he actually gets paid on the butterfat basis?

Mr. GOODWILLIE: Yes.

Mr. CLANCY: Once the producer sells the milk, the fluid milk, who produces the 2 per cent milk that goes on the market? We have 2 per cent and whole milk, and so on.

Mr. GOODWILLIE: The processor standardizes that and brings it down to 2 per cent and uses the cream for some other purpose, but the farmer gets paid for the full amount.

Mr. WILLIAMS: And most milk control boards consider 2 per cent milk eligible for the full price. There are different rates for different provinces and different agencies as to the average milk price. Their definition of fluid milk varies, in other words, from place to place.

Mr. CLANCY: So that in that case there is no advantage to a producer with a dairy herd that is, say, giving an average test of 3 per cent over the fellow in an area we are talking about where 2 per cent is looked upon—

Mr. GOODWILLIE: A fellow producing milk with 3 per cent gets a lower return because it is based on so much a point under 3.5%. If it is higher he gets so much more than the basic price, so it is up to him. The higher the fat the more money he gets.

Mr. WILLIAMS: Once again, it is a matter of provincial pricing policy. Let us say a province sets a price of $5 a hundredweight for 3.5 milk. This should produce a butterfat differential of such-and-such. It may be their present policy is for every point above the standard the increase in returns to the farmer is slightly less per butterfat percentage than if he delievered exactly on it. It is a matter of provincial pricing policy.

Mr. SALTSMAN: Would you care to make a prediction as to what will happen to the price of milk in the next three or four years from the consumers point of view, in light of the facts that have come out in the course of questioning about the difficulties farmers have in the marginal type of operation this is becoming. From the consumers' point of view, what can they anticipate in the next few years as far as the price of milk is concerned, barring government subsidy?

Mr. GOODWILLIE: You have made so many contingencies I would hesitate a guess at this.

Mr. SALTSMAN: Would it go up? Would it go down?

Mr. GOODWILLIE: I would not care to answer. If I knew the answer to this I would not be working for the government.

Mr. SALTSMAN: I would hope you work for the government because you do know the answers to these things.

Co-Chairman Senator CROLL: Any other further questions? We have a witness with a fund of information here available.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): All I want, Mr. Chairman, is: Would you put on the record the name of that survey from British Columbia?

Mr. GOODWILLIE: The Dairy Industry in British Columbia. A study prepared at the request of the British Columbia Minister of Agriculture. It is dated September, 1966.

Co-Chairman Senator CROLL: Gentlemen, if there is nothing further at the moment, we are very appreciative to you for your willingness to answer questions and for your co-operation and the fund of information you have passed on to us. Just because you are a good boy we will probably have you back again at a later stage, but that is only because we appreciate you.

Gentlemen, our witness now is Mr. E. A. Eardley, Director of the Fruit and Vegetable Division of the Department of Agriculture. Will you proceed, Mr. Eardley?

Mr. E. A. Eardley, Director, Fruit and Vegetable Division, Department of Agriculture: Mr. Chairman and gentlemen, the Department collects and records prices of fresh fruits and vegetables at the wholesale to retail level only on twelve Canadian markets. The sole exception is a record of prices paid to the grower for potatoes in Prince Edward Island and New Brunswick.

(*See Appendix "7"*)

I believe Mr. Williams has indicated that we are in the process of obtaining some additional figures as to producer prices for you and, possibly, retail prices. These will be available at a later date.

The wholesale prices recorded include both domestic and imported commodities. Prices are detailed by province, state or country of origin, variety or kind, package, size or count and grade. Because of price variations between origins, varieties, grades, et cetera, a valid comparison to determine if prices increased or decreased can be made only if all factors are comparable.

Supplies may fluctuate quite widely from one season to another because of changes in acreage, weather conditions, et cetera, and seasonal variations in production are usually reflected in prices. In addition to fluctuations in the volume of supply, there can be quite pronounced changes from one season to another in size, colour, et cetera, which also influence the market.

After the first appearance of a commodity on the market, and as supplies increase in volume, there is a seasonal decline in price. Seasonal variations in maturity dates and the rate of increase in volume, frequently make valid comparisons between seasons difficult on a monthly basis. An apparent increase or decrease in a monthly average price as compared with the same month of the previous season may be a reflection of the variation in maturity dates between the two seasons.

Most fresh fruits and vegetables are graded before shipment and sold on the basis of the declared grade. Grade standards, however, establish minimum requirements only, and there can be quite wide variations at times between individual lots of the same grade with a proportionate range in price.

There is a continuous trade with the United States in fresh fruits and vegetables and the Canadian market is influenced by supply and price levels south of the border. Shortages in the United States may create a demand for Canadian produce and result in higher prices on the domestic market. Conversely, surplus supply situations at extremely low prices may result in a weakening of the Canadian market.

The Department does not collect prices at any level for processed products, but minimum prices paid by processors for the raw product as established by Marketing Boards in Ontario and British Columbia are recorded.

I shall turn now to some specific examples. Apples: The September 1966 average of wholesale quotations at Toronto on McIntosh per bushel of Canada Fancy grade was $3.45 as compared with $3.98 in September 1965, a decrease of

13 per cent. Apple prices normally decline seasonally in October and November when there are liberal supplies of local apples available on most markets. Prices on storage apples tend to increase after the New Year as the season progresses, although this may be modified by the rate of disappearance as indicated by monthly storage holdings. In March or April when the supply of cold storage fruit is approaching depletion, apples are removed from controlled atmosphere storage and these constitute the bulk of supplies for the remainder of the season. Controlled atmosphere apples command a premium over ordinary cold storage fruit. The apple market is influenced by production levels in the United States and Europe which take the bulk of the average Canadian exports of three million bushels.

Then follow some figures, which we are going to supplement at a later date.

Peaches: Wholesale to retail quotations at Toronto on Ontario Fresh Peaches in six quart baskets, Canada No. 1 grade, in August of 1966 averaged $1.27 and declined to $1.20 in September as compared with monthly averages of $1.15 in both August and September of 1965. Although peach production levels in Ontario during the past five years fluctuated between 1.6 and 2.1 million bushels, this appears to have had relatively little influence on the market, and prices have shown a fairly constant increase. This seems to suggest that the fresh market, which takes about 55 per cent of the total crop, can readily absorb the maximum volume that can be produced without any appreciable downward trend in price.

There was a crop failure in British Columbia in 1965 because of frost. Wholesale prices averaged $2.71 per carton in August 1966 at Vancouver and increased to $2.95 in September. Both of these prices are the highest averages of the past five years. The 1966 crop was below average because of low temperature damage to orchards in December of 1964.

Potatoes: The September 1966 average price received by New Brunswick potato growers for Canada No. 1 White Potatoes of $1.12 per hundredweight declined seasonally from the August average of $1.22 and was 6 per cent below the September 1965 average of $1.19. Potato prices are ordinarily at their lowest levels during the late summer and early fall. The market is determined by the size of the overall North American late crop for storage. In 1964-65, despite an above average Canadian crop, the market in Canada was strong because of a relatively light late fall crop in the United States which resulted in a brisk export movement. Prices during the latter part of the marketing season in Canada are also influenced by the production levels and market conditions on new crop potatoes in south eastern and western producing areas in the United States.

Tomatoes: Opening wholesale to retail quotations on the Toronto market in July for 1966 crop Ontario tomatoes averaged $1.85 per six quart basket, declining seasonally to an average of $1.27 in August and $.81 in September. As compared with the same months in 1965, these prices represented increases of 78 per cent, 74 per cent and 11 per cent respectively. Adverse weather conditions which delayed maturity and curtailed the volume during the first two months of the season were responsible for the increase in prices.

Wet, cool weather in British Columbia also resulted in delayed maturity and August 1966 wholesale to retail quotations on four-basket crates at Vancouver averaged 16 per cent above those of the same month in 1965. September 1966 prices averaged $3.65 as compared with $3.25 a year earlier, an increase of 12 per cent.

Onions: The August 1966 average of wholesale quotations on Ontario Yellow Onions, Canada No. 1 grade in 15/3 pound cello containers at Toronto of

$4.80 declined seasonally to a September average of $3.89. Both of these quotations are the highest for the same months during the past five years. Although no estimates of 1966 production are yet available, acreage is smaller than in 1965 and dry weather is expected to have reduced yields. The higher prices may reflect an anticipated smaller crop and the fact that a marketing board has been established to handle the sale of the crop. Seasonal averages during the past five years do not indicate a definite trend.

Carrots: Wholesale to retail quotations on Ontario carrots, Canada No. 1 grade in 24/20 ounce cello containers at Toronto in August 1966 averaged $1.63 as compared with $1.78 in August of 1965, a decline of 8 per cent. Prices declined seasonally in both years to an average of $1.41 in September. No definite trend is apparent in the seasonal average prices during the past five years. The relatively high averages during the last four months of the 1961-62 and 1965-66 seasons appear to reflect the somewhat smaller crops harvested in each of these years.

Processing Crops: Minimum prices are established each year in Ontario and British Columbia for the major commodities sold to processors. In comparing prices, no comparison with 1965 is possible for tender tree fruits in British Columbia because of an almost complete crop failure resulting from low temperatures in December 1964.

Ontario 1966 peach prices are unchanged from 1965 but 13 per cent above 1964. Those established in British Columbia are 41 per cent higher than 1964.

The 1966 price for Ontario pears is 12 per cent less than the 1965 price which was the highest of the past five years. The British Columbia pear price in 1966 is four per cent lower than the three years prior to 1965.

Prices set for peas in Ontario in 1966 are approximately three per cent above those of 1965, corn about four per cent and tomatoes 10 per cent.

Co-Chairman Senator CROLL: Mr. Olson?

Mr. OLSON: Mr. Chairman, I would like to refer to the table showing the prices of potatoes, particularly, because I suppose this is one of the most widely used vegetables during the entire season. I am curious about the very wide variations in price. For example, for the 1961-62 selling season—for the 1961 crop, I presume, the price in September was 81 cents per hundredweight; for October, 70 cents; for November 66 cents; and December 72 cents. The price went away down in this area all through that season. Those producers must have taken a real shellacking so far as return on their operating expenses was concerned for that year. How far back do these kind of prices go? Is that an unusual year or not for a ten year period, or something of that kind?

Mr. EARDLEY: That was unusually low, but there are very wide variations, depending almost entirely on the production. Canadian production varied all the way from 40 million hundredweight to 55 million hundredweight over the years; and in 1961 it was 44 million hundredweight.

Mr. OLSON: But is it the variation in the volume of production in Canada that has really caused the prices to fluctuate so much?

Mr. EARDLEY: Not entirely so much, sir. As I mentioned in my opening statement, Canadian producers of fruits and vegetables are influenced to a large extent by what goes on south of the border.

Mr. OLSON: That is right.

Mr. EARDLEY: I have not the United States production, but it is quite possible that the low prices could be correlated with high production in the United States.

Mr. OLSON: Could you give us any assistance in any way to establish or to find an average of what it costs to produce these potatoes, for example, in 1961-62. These prices surely did not meet the cost of production, did they?

Mr. EARDLEY: No.

Co-Chairman Senator CROLL: What prices are you referring to, Mr. Olson?

Mr. OLSON: All through the season.

Co-Chairman Senator CROLL: 1961-62?

Mr. OLSON: The average price in New Brunswick.

Co-Chairman Senator CROLL: For that year?

Mr. OLSON: Not particularly that year, but so that we can pinpoint something now. For instance, the price for June 1965-66 shows the price has gone up to $5.09. Is there a point of breaking even as far as the producer is concerned?

Mr. EARDLEY: Of course, the 1964-65 season was an unusual one. Canada was fortunate in having a reasonably good crop, and there was a short crop on the other side of the line. We exported quite a substantial volume, and obviously this strengthened the domestic market and that accounts for the high price. If it is of any assistance to you, I can give you some wholesale prices, seasonal prices, for New Brunswick potatoes on the Montreal market.

Co-Chairman Senator CROLL: Certainly.

Mr. EARDLEY: Perhaps you would like to add those to your table at the moment. In 1961-62, $1.92.

Mr. OLSON: Is that for the year?

Mr. EARDLEY: This is a seasonal average for New Brunswick potatoes per hundredweight on the Montreal market.

Mr. WILLIAMS: This is the marketing year, not the calendar year.

Mr. EARDLEY: 1962-63, $2.56; 1963-64, $2.68; 1964-65, $4.19; 1965-66, $3.30.

Perhaps I should point out here that these seasonal averages of the producer, that is, 90 cents $1.28, etc. are for "bulk"—they deliver the potatoes to the packing house, and the packing house has the expense of grading and bagging, and of course any other work that the shipper has. There is then roughly a 41 cent freight rate from New Brunswick to Montreal, which varies, depending on the size of the car, all the way from about 39 cents up to 45 cents. The size of car that is shipped now has a freight rate of 41 cents to Montreal.

Mr. OLSON: I am a little confused because you say these are the average prices paid for Canada No. 1 grade per hundred.

Mr. EARDLEY: If I deliver 50 barrels and they only grade out 40 barrels of Canada No. 1 grade, I am paid only for 40 barrels.

Mr. WILLIAMS: In regard to part of Mr. Olson's question as to whether they meet the cost of production in the area, I may say that whether this was or was not the case, the Stabilization Board was authorized to introduce a support for this production in New Brunswick. Under that program, the Stabilization Board paid for a subsidy on potatoes used for starch production with the payment varying, depending on the time of year. The object was twofold—to increase the return to the producers; and to remove surplus potatoes from the market, in order to stabilize prices.

Mr. OLSON: Did you attempt to set that up at what is called parity of prices there, in determining the level you were going to start them at?

Mr. WILLIAMS: I would have to answer, I am afraid, that it was set up on a basis of the absolute minimum cost of production, without having terrifically strong figures to justify the basis of the cost of production.

Mr. OLSON: Do you have some of those figures?

Mr. WILLIAMS: I think they could be obtained. It was quite a while ago, sir, and I do not know their relevance in terms of cost of production at the present time.

Mr. OLSON: You do not carry this program on at the present time?

Mr. WILLIAMS: No, sir, it was only operating in the production year 1961-62.

Mr. OLSON: Then it is a fair assumption that the market demand in relation to the total supply in Canada really does not affect the market for potatoes very much.

Mr. WILLIAMS: Within the limits of the tariff, which is 37½ cents per hundredweight.

Mr. OLSON: The greatest influence in this wide variation of prices is what happens in the United States?

Mr. EARDLEY: Without trying to generalize, yes. With all fruits and vegetables, prices cannot go to any unreasonable heights in Canada, because you at once invite imports. Obviously the United States has vast more production than we have. Unfortunately, their crops come in mostly a little ahead of ours, which makes it difficult. In general, however, if we have a short crop over here, there has to be a short crop also in the United States for our producers to benefit. If the shortage is merely in Canada, once the price gets above a figure of X, it just invites imports.

Mr. OLSON: During these years 1961-62 when it was extremely low, up to 1964-65, which are somewhat higher—in fact I think that is the highest average—is there anything with respect to Government policy in Canada or in the United States that may have directly or indirectly affected this increase of, whatever it is, about 400 per cent?

Mr. EARDLEY: No, there is nothing so far as Government action in Canada that affects it. It is simply a question of short supply on the whole continent, starting with the earliest one in the spring.

Mr. OLSON: No change in the United States government policy that might have affected the price level in the market there, during that period?

Mr. EARDLEY: I do not know of any. Of course, the value for duty has been established on more than one occasion, when imports were at a very low level, and were undermining the Canadian potato market.

Mr. OLSON: I understand that but I am wondering if there was any change in United States government policy that may have affected the encouraging or discouraging of production of potatoes in the United States?

Mr. EARDLEY: I do not know of any.

Mr. WILLIAMS: The only one I can think of, Mr. Olson, is a very indirect one, which was of course their restriction of acreage of other crops although in general this was not in areas where potatoes were competitive.

I should say something in regard to implications in an earlier answer. Year after year Canada is a net exporter of potatoes, so while we cannot say that the price is set in the United States, it is the maximum that is set, because we are a net exporter. It is not because the potatoes are of necessity coming in here and setting the price.

Mr. OLSON: There has been a very significant drop in the June price, for example, between 1964-65 and 1965-66. The price paid to the grower was 5.09—that would be June 1965—and it has fallen to 1.61 cents in June 1966. Is there any special reason for that?

Mr. WILLIAMS: I would think there is a very definite reason for it and the Government later took action in respect of this. That is June 1966, I think you will appreciate, sir; it is 1965 marketing season but it is June 1966 we are speaking about there as compared to June 1965.

The California digging season was very late this last year—that is, this last spring—and as a consequence their potatoes down there dropped to a very, very

low level. Because of this they could not get them dug and marketed before the volume came on from other states, thus, their potatoes came on late, they were a glut on the market there and prices dropped and potatoes moved into Canada and put the prices down.

Mr. OLSON: Do you think this was a temporary situation?

Mr. WILLIAMS: It was remedied by the value for duty that was applied at a later date and of course the situation corrected itself somewhat as time went on.

Mr. OLSON: With respect to onions, you say in your brief:

> The higher prices may reflect an anticipated smaller crop and the fact that a marketing board has been established to handle the sale of the crop.

I wonder if you could explain why you suggested a marketing board may reflect the change in these prices.

Mr. EARDLEY: There have been marketing boards in Ontario off and on for a number of years. Never to my knowledge has this covered the entire province: it has been more localized than provincewise. This year for the first time there is a marketing board for onions in Ontario, in which all producing areas are represented.

Mr. OLSON: It covers the entire province?

Mr. EARDLEY: Yes. There will be a pooling system. The dealers who sell onions are going to be licensed. It would be early to know exactly where it is going to, but it is giving the whole onion market a little more buoyant feeling than otherwise.

Mr. WILLIAMS: I think that a compulsory marketing board over the whole province means that there is less incentive for people to try to get marketing done early, in other words, to compete on the early market.

Mr. CAMERON: Have you any comment to make on the complaints—which I have heard on a number of occasions from potato growers in my area—that the imposition of the tariff provisions to protect, it may be, the price levels, invariably come too late and are too little to put on after the price has risen.

Mr. EARDLEY: There are two things here, I am not sure to which one you are referring. As to the actual seasonal duties for the various fruits and vegetables which are established for a certain length of time, dependent on the commodity, the Department of National Revenue is requested by the industry, through the Canadian Horticultural Council to apply the seasonal duty on peaches, onions, or whatever product is coming in. This is done. This is an industry recommendation, and having "X" number of weeks of seasonal duty, they apply it in the various areas—British Columbia and the prairies, Ontario and Quebec, or the Maritimes—the three different areas. They apply it where they think the number of weeks that they have for the seasonal duty will do the most good.

I somewhat suspect that the complaint you have heard is about the value of duty which we are talking about rather than the seasonal duty. I suppose this is inevitable, but it takes some considerable time to really establish what the market is in Canada, what the market is in the United States and how it is affecting the Canadian market, after somebody has said that it is hurting us.

Co-Chairman Senator CROLL: Is that not Mr. Cameron's point, that by the time you get round to that the damage is done. You know what is going on in the country and I am sure that the people who are affected are not the least backward of complaining. Why can this thing not be applied and applied most immediately? I think that was the substance of Mr. Cameron's question.

Mr. SMITH: Is it not too slow in its application? Is that not the general complaint you hear from peach growers?

Mr. WILLIAMS: It has never been applied to peaches. The law was only applied to potatoes, to the best of my knowledge. It was applied on three occasions. It is a very difficult law to apply because of international repercussions and the legislation is not administered by the Department of Agriculture.

Another possibly more important consideration is that the interests of the potato growers across Canada are quite divergent. We have one segment of the country which might be called protectionists insofar as its potatoes are concerned, and we have another segment of the country which might be called free-traders insofar as its interests are concerned, and those responsible for the administration of this piece of legislation have this very much before them when giving consideration to it, namely that, while saving the people in one part of the country they may be damaging the people in another part of the country. I think the real difficulty in reaching a decision in respect of value for duty on potatoes is to balance the net benefit against the possible net disadvantages that might accrue from the application of the law.

Co-Chairman Senator CROLL: Yes, but it is not done. The Department of National Revenue does it, but not without a recommendation from your Department.

Mr. WILLIAMS: That has been the practice to date, sir.

Co-Chairman Senator CROLL: Yes. We will have Mr. Cameron and then Mr. Smith.

Mr. CAMERON: I have another related question which always struck me as one of the requirements of the potato industry. Many of the potato producers in my area rely to a great extent for their returns on supplying seed potatoes to California. They have to have seed potatoes every year. What are the American tariffs, or are there any, with regard to the import of seed potatoes? Are they freely allowed into the country?

Mr. WILLIAMS: The rate is reciprocal, and it does not matter whether they are table potatoes or seed potatoes. The rate is 37½ cents per hundredweight up to a quota. Above that it doubles to 75 cents. The movement north does not have the doubling in it. In other words, we do not have a quota on either table or seed potatoes coming into this country from the United States. There is no absolute quota on potatoes going into the United States. There is a change of tariff at a certain level.

Mr. CAMERON: You do not have that change?

Mr. EARDLEY: We do not have that change.

Mr. CAMERON: May I refer to your apples. I notice you have figures for the Ontario apples but not any on the British Columbia Tree Fruit Limited.

Mr. EARDLEY: That will be included in the later submission, sir. We do have the figures.

Mr. SMITH: I have just one or two questions about the fluctuations in prices during the winter, after certain of the crops are completely harvested, and I mean winter vegetables for home use. For example, in carrots in the 1963-64 crop year, starting with December when, clearly, all carrots that can be harvested in Canada have already been harvested, the December price was \$1.29. In January it was \$1.66. There was a falling off in April. It come back to \$1.22. You notice the same fluctuation in certain years in onions and potatoes. There is an up and down movement when, clearly, the limit of the Canadian crop has been well established because everything has been harvested and has been put in storage. It is just a matter of going to the market. Why, for example, should carrots jump from \$1.22 a bushel in December to \$1.66 a bushel in January?

Mr. EARDLEY: Well, there is extra storage and shrinkage out of storage. Supply and demand and imports come in later on than that to help supply the

market. But, basically, the change is an extra month's storage and an extra month's shrinkage in grading.

Mr. SMITH: Then, in the month following they stop falling again by 20 cents a bushel in February.

Mr. EARDLEY: This is the time of year when imports start to compete with ours, and housewives think that a fresh bunch of Texas carrots is better than a bag of Canadian carrots.

Co-Chairman Senator CROLL: What does she pay for Texas carrots and for Canadian carrots?

Mr. EARDLEY: I do not know, sir. We will see what we can do to get that information.

Co-Chairman Senator CROLL: You mean your wife has not told you?

Mr. EARDLEY: I certainly have not got any figure that I would like to give right now.

Co-Chairman Senator CROLL: Give us what figures you have. We will have some others later, but tell us what is in your mind now.

Mr. EARDLEY: In February, 30 pounds of Canadian carrots, that is 24×20 oz, will run in the neighbourhood of 5 cents to 7 cents a pound.

Co-Chairman Senator CROLL: That is what the wife pays? What she pays at the store?

Mr. EARDLEY: No, this is wholesale to retail. I would think that—and this is a pure guess, sir.

Co-Chairman Senator CROLL: That is all right.

Mr. EARDLEY: I would think that the imported carrots would be in the order of 7 cents to 10 cents a pound.

Mr. CAMERON: I wonder if I could just ask a question I forgot to ask with regard to apples. I notice you really have the wholesale prices here. Have you got any figures on the price paid to the producers?

Mr. EARDLEY: We are working on that. The Dominion Bureau of Statistics put out prices to producers, but this is the price for all apples. We have got, and I am in the process of compiling, prices for McIntosh apples to the grower in British Columbia, which can be related to the figures we are going to give you, wholesale to retail. In other parts of Canada it is very difficult to give grower prices for a variety.

Mr. CAMERON: Why is that?

Mr. EARDLEY: Because in quite a number of the areas, and this is particularly true of Ontario, the dealers might buy a man's orchard—in fact, they do—and they may even buy the apples on the tree at so much a bushel for all varieties from the poorest variety up to the best. The dealer may buy all the man's apples, "free-run, culls out", in which they have taken out the worst of the apples although it is not a completely graded apple. Here again the dealer will pay so much a bushel which will include all varieties. Therefore, to try to arrive at a price to the grower for McIntosh apples is very, very difficult, except in places such as British Columbia, where everything goes through the one office, and we have fairly accurate figures on that.

Co-Chairman Senator CROLL: Just one moment, Perhaps this will help the Committee a little bit. Can you give me some figures? You said that in February of 1966 the cost to the retailer was 5 cents to 7 cents a pound. Is that what you said? On carrots?

Mr. EARDLEY: Yes.

Co-Chairman Senator CROLL: Just for your own information, carrots in February of this year sold for 13.5 cents a pound. Now, give me a few others that you have there and we will try to compare figures.

Mr. EARDLEY: I just gave you a range.

Co-Chairman Senator CROLL: But what month?

Mr. EARDLEY: This was wholesale to retail that I gave you.

Mr. WILLIAMS: Let us just take another place. You tell us one, sir, and we will tell you what it was.

Co-Chairman Senator CROLL: All right. Tell me what June of '65 was, wholesale to retail?

Mr. WILLIAMS: They did not have any June or July price on Canadian carrots then, sir.

Mr. EARDLEY: In June of 1965, there would be few, if any, Canadian carrots on the market. We do not have a price.

Co-Chairman Senator CROLL: Any in July?

Mr. WILLIAMS: We don't have June or July prices on Canadian carrots.

Co-Chairman Senator CROLL: What about August 1965?

Mr. WILLIAMS: Six cents a pound.

Co-Chairman Senator CROLL: And they were selling at 15.6 cents a pound.

Mr. EARDLEY: And in September it was five cents.

Co-Chairman Senator CROLL: And selling at 12.8 cents a pound. Now in 1966, what about March?

Mr. EARDLEY: $7\frac{1}{2}$ cents.

Co-Chairman Senator CROLL: And selling at 15.2. What about May?

Mr. EARDLEY: For May we have no figure.

Co-Chairman Senator CROLL: How is it that the DBS is three months ahead of you?

Mr. WILLIAMS: We have later figures than that, but for that month we had no Canadian carrots.

Mr. OLSON: There you have a 100 per cent markup.

Mr. SMITH: Would packaging play a big part in the cost of staple vegetables like carrots?

Mr. EARDLEY: These figures for carrots are for those already packaged in $1\frac{1}{4}$-pound bags.

Co-Chairman Senator CROLL: It is a net profit.

Senator CARTER: Mr. Chairman, these tables we have give the average seasonal price for potatoes, carrots and onions, etc. Does grading enter into this at all?

Mr. EARDLEY: This is graded produce. With the exception of apples, practically all vegetabels are sold as Canada No. 1. There is very little No. 2 except in years of short supply. Only in those years do you have Canada No. 2 grade potatoes, carrots or lettuce.

Mr. WILLIAMS: When Mr. Eardley says that he means that very little No. 2 grade comes through retail channels. The lower grades go to processing as a rule or are fed to livestock.

Senator CARTER: You read to us some time ago a list of figures of prices on the Montreal market. I copied them down and I am not sure if I have them all down correctly. The figures I copied down for 1961-62 show a price average of 90 cents and the retail at $1.92 which was almost 100 per cent higher. For 1962-63 it was $1.58 as against $2.56, Coming down to 1963-64, 1964-65 and 1965-66, the spread is only 30 per cent. Did something happen between 1963 and 1964 to lower the spread from 100 per cent to 30 per cent?

Mr. EARDLEY: Well, the higher the price goes the more room there is to make a profit. To quite a large extent, not entirely by any means but to quite a

large extent, they expect to make so much. Granted when the price goes up they make a little more. The higher the price goes to the producer does not mean of necessity a corresponding increase in the markup.

Mr. WILLIAMS: I have done the spread in dollars—not as a percentage—in the five years in question and they are $1.02, $1.28, $1.14, $1.27 and $1.29. Over those years with the exception of the very low year there has not been too great a change in the spread.

Senator CARTER: The difference in dollars is not very great.

Co-Chairman Senator CROLL: What, to your knowledge, is the usual mark-up on the vegetables that we have been discussing? Let us say first of all the retailer's level. Or perhaps you can tell us what it is at all stages, from your knowledge and on the basis of your experience, starting at the beginning. The farmer who has the carrots, what does he sell them for and then where do they go?

Mr. EARDLEY: The carrot then goes, generally, to some wholesaler.

Co-Chairman Senator CROLL: What does the wholesaler usually mark up?

Mr. EARDLEY: That varies greatly in cities. These are just my hunch; I could be quite wrong. In cities like Toronto and Montreal the markup is considerably less and they discuss it generally in terms of saying "We work for nickels and dimes." I don't think they are that badly off, but they do get far less than some of the other smaller cities such as Ottawa. I would think that 12½ per cent might be a wholesaler's markup selling to the retailer.

Mr. URIE: In which city?

Mr. EARDLEY: In Montreal or Toronto—in large cities.

Mr. URIE: They would be greater in Ottawa?

Mr. EARDLEY: Yes.

Senator CARTER: Would that include packaging?

Mr. EARDLEY: Yes. That includes the servicing they do on top of their costs. They have the cost of packing. Very, very few carrots are now sold in bulk; they are nearly always wrapped up in polyethylene bags and this is done by the wholesaler and not by the store in question.

Mr. SMITH: He would not bag them within his 12½ per cent markup. He would not wash and sort them and bag them for that?

Mr. EARDLEY: His profit on the handling runs in this area.

Co-Chairman Senator CROLL: Now take us the next step.

Mr. WILLIAMS: From the retailer to the consumer.

Mr. EARDLEY: I have heard that on a produce counter the markup is approximately one-third of the selling cost.

Co-Chairman Senator CROLL: Thirty-three per cent.

Mr. OLSON: One-third of the retail price is a 50 per cent markup.

Co-Chairman Senator CROLL: There must be a considerable loss there.

Mr. EARDLEY: This is why it is so high, because the shrinkage, particularly in some commodities, is very, very high.

Mr. OLSON: What do you mean by shrinkage?

Mr. EARDLEY: Loss from decay or over-maturity of fruits—slimy decay on lettuce and that sort of thing. In a well-run produce counter in a supermarket they go over their entire produce every morning to take out what is not right. They do not always do it and sometimes we find they do not take out enough.

Mr. OLSON: Have you any idea what percentage there is of shrinkage?

Mr. EARDLEY: That is very hard. It would vary with commodities. You could lose all the peaches you had in the store by tomorrow morning. Pears are

also very, very perishable and lettuce is very perishable. Obviously carrots and potatoes and what are called the "hardware vegetables" are not subject to the same amount of shrinkage.

Mr. OLSON: I realize this could happen if something happened to the temperature control. Have you any idea what the average loss is from this kind of shrinkage?

Mr. WILLIAMS: We will try to get some records.

Mr. EARDLEY: I will give you a personal experience of what happened with peaches, which is a very perishable commodity. Years ago, when I was the local inspector here in Ottawa, I was asked to make an inspection on a car of peaches, which had been shipped from the Niagara Peninsula two days earlier. My certificate showed 75 per cent decay. The shipper was quite convinced I was absolutely wrong and he flew down. By the time he flew down it was over 80 per cent. That was in about 48 hours.

Mr. OTTO: This would be an unusual situation?

Mr. EARDLEY: Yes, this is unusual, but this is what *can* happen, particularly in a year when the incidence of brown rot in high. You have different diseases that affect different commodities. Sometimes it is very prevalent and sometimes it is not. So, it would be most difficult and, I am afraid, misleading if we tried to give a figure for the shrinkage.

Mr. McCUTCHEON: Time is getting on and I do not want to belabour the committee with long-winded comments, but is this a fair assumption from an analysis of your tables, that there has really been no distinctive upward trend in the prices at the farm level?

Mr. EARDLEY: The only exception would possibly be peaches.

Mr. McCUTCHEON: Yes. From your great store of facts and figures, can anyone tell me the retail price of a can of tomatoes in 1961?

Mr. EARDLEY: Not at the moment. This is one of the things we are trying to get some information on.

Mr. McCUTCHEON: Mr. Chairman, do you have anything on it?

Co-Chairman Senator CROLL: On peaches?

Mr. McCUTCHEON: No, tomatoes.

Mr. WILLIAMS: When do you want it for—1951?

Mr. McCUTCHEON: In 1961 and '66, so we can compare the prices with those on the chart here.

Mr. WILLIAMS: All I have on retail price is the average for 1964 compared to 1966, but I do have the index back to 1949.

Co-Chairman Senator CROLL: Give him the index to 1949, tomatoes canned.

Mr. WILLIAMS: Yes, 28-ounce canned. The July, 1966 price relative to the 1949 price was 178.6.

Co-Chairman Senator CROLL: What is that, July, 1966 did you say?

Mr. WILLIAMS: The July, 1966 price, the index, using 1949 as the base, was 178.6.

Co-Chairman Senator CROLL: I have 35.8.

Mr. WILLIAMS: Yes, that is right. 35.8 was the actual price, and that was 178.6.

Mr. McCUTCHEON: By that same method, could you give it in 1961?

Mr. WILLIAMS: I am afraid not. We can get it, but we do not have it here.

Co-Chairman Senator CROLL: I have 1965 and 1966.

Mr. WILLIAMS: In 1964 it was 31.5. In 1965 it was 34.5; and in July, 1966 it is 35.8.

Mr. EARDLEY: And to go back one more year, in 1963 it was 27.1.

Mr. McCUTCHEON: Now we are getting someplace. If you turn to your last chart on processing crops, the minimum prices paid per ton by processors to growers for representative commodities, and the Ontario tomatoes for the four years 1961 to 1964 the price is stable at $35.10 per ton. The last figure you gave me was 27.5.

Mr. EARDLEY: No, 27.1.

Mr. McCUTCHEON: 0.1, was it?

Mr. EARDLEY: Yes.

Mr. McCUTCHEON: Which was the last year based on the 35.10 price. We have gone up from 27.1 to 35.8, and the price per ton has gone from the $35.10 in 1961 to $42.55 in 1966. Is there a direct correlation there?

Mr. EARDLEY: Except for the 1963 and the 1964, while the grower prices were the same, the retail price went up. The others, I think, reflect reasonably the increase plus added other costs.

Mr. McCUTCHEON: Would you just comment this way, is the spread from 27.1 to 35.8 in direct relationship to the price from $35.10 to $42.55, or is it not?

Mr. EARDLEY: I think there is a significant correlation, yes.

Mr. WILLIAMS: Almost directly. Each is about a 10 per cent increase. From $35.10 to $38.60 is an increase of $3.50. This is exactly 10 per cent increase in the price to the producer. From 31.5 to 34.5 is an increase of 3 cents, which is just under 10 per cent increase in price to the consumer.

Mr. McCUTCHEON: This is the point we have to get at. We want to find out if there is something, and the only way we are going to find out is through meaningful figures like this. If they are staying in line everything is all right, but if they are not this is what we have to find out.

Mr. WILLIAMS: We will endeavour to work them out for you.

Mr. McCUTCHEON: Thank you. It is interesting to note that since 1961 the price of picking tomatoes just for field labour has advanced from about 10 cents, 12 cents per hamper to a current price of 25 cents per hamper. There are approximately 35 hampers in a ton of tomatoes, so it is obvious that the farmer has not picked up a heck of a lot on that increase. I have no further questions. You have answered what I had in the back of my mind, and I want to thank you.

Co-Chairman Senator CROLL: We were discussing carrots a little while ago and you gave us some rather useful information. Would I be right in suggesting to you that what is applicable to carrots is applicable to onions, turnips, cabbage and fresh tomatoes?

Mr. EARDLEY: If you eliminated the fresh tomatoes, I would say, roughly, yes.

Co-Chairman Senator CROLL: Let us have it then, onions, turnips and cabbage. The same thing would be applicable as is applicable to the carrots?

Mr. EARDLEY: Yes.

Co-Chairman Senator CROLL: Fresh tomatoes, Mr. McCutcheon has been talking about that. You are getting him some figures. Have you anything to say at all about canned goods? They seem to have held their own pretty well, and there have not been any great fluctuations. Are there any observations you can make?

Mr. EARDLEY: As far as the producer is concerned, you have the figures of the producer prices for the main commodities that are processed, and they have moved up. There have been some ups and downs. I do not think any of the higher prices are abnormally high. Of course, you have to remember that when

you buy a can of tomatoes or peaches, that the tomatoes and the peaches in that can do not represent a tremendously high item in the whole cost. You have the cost of the operation, you have the cost of the can, you have the cost of the labour, you have the cost of, maybe, sugar, depending on what it is. So, there are a lot of things that go into the cost of producing a can of tomatoes or a can of peaches above the price of the fruit itself.

To give you some rough ideas as to the cost of the actual commodity in a 20-ounce can, the cost of the peaches is around 9 cents, the cost of pears is about 8.7 cents—this is based on this year's prices, incidentally—peas, 4.5 cents; corn, 4.5 cents; and tomatoes—that is, canned as opposed to juice—about 4.75 cents.

Co-Chairman Senator CROLL: Just let you and me do a little trading. Are we talking about the same thing?

Mr. WILLIAMS: I have the figures here, sir.

Co-Chairman Senator CROLL: Are we talking about the same thing? Are you talking about tomatoes, canned, 28 ounces?

Mr. EARDLEY: No, this is tomatoes, canned but in 20-ounce cans. I suppose you could add a proportionate amount.

Mr. URIE: But we are talking about the value of the tomatoes in that can?

Mr. EARDLEY: Yes.

Mr. WILLIAMS: The best estimate we have for 1965 is that of the consumer dollar spent on canned tomatoes the producer gets 16.3 per cent. Of the consumer dollar spent on canned corn the producer gets 18.6 per cent, and with respect to canned peaches the figure is 24.4 per cent.

Co-Chairman Senator CROLL: Now you are getting into useful figures. Give us some more.

Mr. WILLIAMS: Those are the only canned products for which I have figures here.

Co-Chairman Senator CROLL: Have you any other figures that will be useful to us?

Mr. WILLIAMS: I have plenty of figures here, but I do not know whether they will be of use.

Co-Chairman Senator CROLL: You are as good a judge of that as I am.

Mr. WILLIAMS: I think the committee would be interested in some of these. These are all for 1965. For cheese it is 36.3 per cent; for fluid milk, as was mentioned earlier this afternoon, it is 53.2 per cent; for evaporated milk it is 37.3 per cent; for fresh apples it is 26.2 per cent; for potatoes it is 49.7 per cent. These are all percentages—the percentage to the consumer.

Co-Chairman Senator CROLL: The percentage of what?

Mr. WILLIAMS: The percentage of the consumer dollar that reached the producer in 1965. With respect to wheat used in flour, the figure is 30 per cent; beef 57 per cent; pork 59 per cent; broilers 58.6 per cent; eggs 65 per cent; and butter, based on butter fat, 78 per cent.

Those are the figures that I have. I think one thing very worthy of note all through here is that those commodities which are relatively unchanged, such as eggs, or which require a minimum of processing, in general return by far the greater percentage to the farmer.

Mr. OLSON: Do you have an amount that the producer gets out of bread?

Mr. WILLIAMS: I have, but I did not give it because I was afraid somebody would ask if it includes the shortening and things of that nature. The figure I have here is 12 per cent.

Mr. OLSON: For the wheat?

Mr. WILLIAMS: Presumably this is for the wheat, but I am afraid I cannot answer in respect to other agricultural commodities. When I came to this figure I proposed to look into it myself and find out the answer for my own satisfaction.

Mr. OLSON: We will wait until you do that.

Mr. WILLIAMS: You have a commodity here which does have other agricultural products in it as well as wheat?

Co-Chairman Senator CROLL: But you are going to give us the answer?

Mr. WILLIAMS: I will give you the answer as to what that figure of 12 per cent means.

Mr. McCUTCHEON: In other words, you are going to give us figures on this basis, say, that there is two cents worth of farmer's wheat in a loaf of bread?

Mr. WILLIAMS: No, what I intend to do, sir—the figure that I have here shows that of the consumer dollar 12 per cent is returned to the farmer. What I did not know when I came to this figure in this list was whether it referred to wheat only, or whether some adjustment has to be made for other agricultural commodities contained in a loaf of bread, such as dry skimmed milk powder, shortening, sugar and things of that nature. I shall find out what that figure of 12 per cent refers to—whether it refers to the aggregate of all agricultural commodities or to the wheat portion only.

Mr. OLSON: I have just one other question, Mr. Chairman, and it is a short one. This table on potatoes shows a decline in the price from $5.09 in June, 1965 to $1.61 in June of 1966. Do you know whether there was a corresponding decline in the price to the consumer?

Mr. EARDLEY: Not offhand, but I would suspect there was.

Co-Chairman Senator CROLL: You would suspect there would be?

Mr. EARDLEY: Yes.

Co-Chairman Senator CROLL: We suspect otherwise, you know.

Gentlemen, as we have gone along, the Department of Agriculture have become more and more helpful to us. Of course, it may be that we are understanding what they are talking about better than we did when they first arrived. We have had a great deal of information given us today. I do not know when we shall be able to hear from the Department again, because at our next meeting we will hear from the Governor of the Bank of Canada, and after him we will be hearing from the Dominion Bureau of Statistics. However, it is quite possible that we will return to the Department of Agriculture, at which time we shall receive all the answers Mr. Williams has said he will give us. We will have one session at that time with his whole staff.

Of course, Mr. Williams, you will have some one present throughout our proceedings, even though you are not here yourself?

Mr. WILLIAMS: Yes.

Co-Chairman Senator CROLL: By that time you will know what we are trying to get at, and be able to assist us in reaching some conclusions. When you come before us again please have all the material that you have been preparing which you think we ought to have. Prepare it in the same way you would if your minister told you he was going to deal with this or that subject, and asked you to prepare material for him. You and I are in the same position. We are both public servants. Sometimes you will have to offer to help us, because we do not know too much about this subject yet.

Mr. WILLIAMS: We shall be pleased to do that, sir.

Co-Chairman Senator CROLL: Thank you very much, gentlemen, for attending here. We have had a pretty hard day. On Thursday we shall hear from the Governor of the Bank of Canada.

Whereupon the committee adjourned.

APPENDIX «6»

FACTS AND FIGURES ON THE CURRENT DAIRY SITUATION

Milk production for the past six years has not shown any significant change. During this same period, population has increased by over one million people, and per capita consumption has shown no pronounced change. The results of these trends are that production and consumption of milk and its products are more closely in balance than for some time.

TABLE I

FARM VALUE OF MANUFACTURING MILK
$ Per Cwt

Year	Canada	Ontario	Quebec
1950	2.61	2.41	2.65
1955	2.52	2.34	2.51
1961	2.68	2.55	2.69
1962	2.64	2.57	2.56
1963	2.67	2.61	2.61
1964	2.77	2.74	2.70
1965	3.06	3.05	3.22

TABLE II

FARM VALUE OF MANUFACTURING MILK
$ Per Cwt

	1965			1966		
Month	Canada	Ontario	Quebec	Canada	Ontario	Quebec
January	2.96	3.00	2.91	3.10	3.12	3.18
February	2.94	2.98	2.96	3.10	3.16	3.15
March	2.94	2.98	2.94	3.11	3.18	3.20
April	2.00	2.94	2.83	3.01	3.14	2.67
May	2.85	2.86	2.81	3.01	3.13	2.76
June	2.80	2.79	2.78	2.98	3.04	2.82
July	2.78	2.75	2.77	2.95	2.99	2.72
August	2.82	2.81	2.79			
September	2.90	2.90	2.87			
October	3.06	3.05	3.22			
November	3.08	3.09	3.24			
December	3.10	3.12	3.25			

SOURCE — D.B.S.

TABLE III

AVERAGE WHOLESALE PRICES

Year	Butter Solids First Grade Montreal	Cheddar Cheese First Grade Belleville	Spray Dry Skim Bags Montreal
1950	$56\frac{7}{8}$¢	$29\frac{1}{2}$¢	$12\frac{1}{4}$¢ #
1955	$58\frac{7}{8}$	31*	$11\frac{5}{8}$ #
1962	$54\frac{7}{8}$	$34\frac{3}{4}$	8
1963	$50\frac{3}{4}$	$36\frac{5}{8}$	$10\frac{7}{8}$
1964	$51\frac{3}{4}$	$37\frac{1}{4}$	$14\frac{5}{8}$
1965	$54\frac{1}{2}$	$40\frac{1}{8}$	$15\frac{1}{2}$

* F.O.B. Montreal
# Barrels

TABLE IV

Month	1965	1966	1965	1966	1965	1966
January	53¢	$56\frac{7}{8}$¢	38¢	$41\frac{3}{4}$¢	$15\frac{1}{4}$¢	$15\frac{1}{2}$¢
February	$52\frac{3}{4}$	$56\frac{7}{8}$	38	$42\frac{1}{2}$	$15\frac{1}{4}$	$15\frac{3}{4}$
March	$52\frac{3}{4}$	$56\frac{7}{8}$	38	$42\frac{1}{2}$	$15\frac{1}{4}$	16
April	$52\frac{3}{4}$	59	38	$43\frac{1}{4}$	$15\frac{1}{4}$	18
May	$54\frac{7}{8}$	59	38	43	15	18
June	$54\frac{7}{8}$	59	$40\frac{3}{4}$	$42\frac{3}{4}$	15	18
July	55	59	$41\frac{3}{4}$	43	$15\frac{1}{4}$	18
August	$55\frac{1}{8}$	59	$41\frac{3}{4}$	43	$15\frac{1}{4}$	18
September	$55\frac{1}{8}$		$41\frac{3}{4}$		$15\frac{1}{4}$	
October	$55\frac{1}{8}$		$41\frac{3}{4}$		$15\frac{1}{4}$	
November	$55\frac{1}{8}$		$41\frac{3}{4}$		$15\frac{1}{4}$	
December	$55\frac{1}{8}$		$41\frac{3}{4}$		$15\frac{1}{2}$	

SOURCE—D.B.S.

TABLE V

FARM VALUE OF FLUID MILK
$ Per Cwt

Year	Canada	Ontario	Quebec
1950	3.91	3.92	3.83
1955	4.33	4.30	4.17
1961	4.77	4.84	4.50
1962	4.78	4.83	4.49
1963	4.79	4.88	4.51
1964	4.92	5.00	4.65
1965	5.01	5.01	4.82

TABLE VI

FARM VALUE OF FLUID MILK
$ Per Cwt

	1965			1966		
Month	Canada	Ontario	Quebec	Canada	Ontario	Quebec
January	5.01	5.03	4.81	5.09	5.09	4.83
February	5.01	5.03	4.82	5.16	5.14	5.05
March	5.00	5.03	4.82	5.16	5.13	5.07
April	4.99	5.03	4.81	5.18	5.14	5.07
May	4.97	5.02	4.81	5.18	5.14	5.06
June	4.96	4.99	4.82	5.23	5.14	5.07
July	4.96	4.96	4.81	5.38	5.50	5.06
August	4.98	4.95	4.81			
September	5.02	4.99	4.82			
October	5.07	5.03	4.85			
November	5.09	5.05	4.87			
December	5.07	5.05	4.84			

TABLE VII

Approximate quantity of product obtained from 100 pounds of milk testing 3.5% butterfat

Fluid Milk	39 quarts
Creamery Butter	4.2 pounds
Cheddar Cheese	9.0 pounds
Evaporated Milk	43.5 pounds
Dry Whole Milk	12.5 pounds
Dry Skim Milk	8.0 pounds
Casein	2.5 pounds

SOURCE: D.B.S.
DBG/md — Oct. 4/66

APPENDIX «7»

FRUITS AND VEGETABLES

The Department collects and records prices of fresh fruits and vegetables at the wholesale to retail level only, on twelve Canadian markets. The sole exception is a record of prices paid to the grower for potatoes in P.E.I. and N.B.

The wholesale prices recorded include both domestic and imported commodities. Prices are detailed by province, state or country of origin, variety or kind, package, size or count and grade. Because of price variations between origins, varieties, grades, etc., a valid comparison to determine if prices increased or decreased can be made only if all factors are comparable.

Supplies may fluctuate quite widely from one season to another because of changes in acreage, weather conditions, etc., and seasonal variations in production are usually reflected in prices. In addition to fluctuations in the volume of supply, there can be quite pronounced changes from one season to another in size, colour, etc., which also influence the market.

After the first appearance of a commodity on the market and as supplies increase in volume, there is a seasonal decline in price. Seasonal variations in maturity dates and the rate of increase in volume, frequently make valid comparisons between seasons difficult on a monthly basis. An apparent increase or decrease in a monthly average price as compared with the same month of the previous season may be a reflection of the variation in maturity dates between the two seasons.

Most fresh fruits and vegetables are graded before shipment and sold on the basis of the declared grade. Grade standards, however, establish minimum requirements only and there can be quite wide variations at times between individual lots of the same grade with a proportionate range in price.

There is a continuous trade with the United States in fresh fruits and vegetables and the Canadian market is influenced by supply and price levels south of the border. Shortages in the United States may create a demand for Canadian produce and result in higher prices on the domestic market. Conversely, surplus supply situations at extremely low prices may result in a weakening of the Canadian market.

The Department does not collect prices at any level for processed products but minimum prices paid by processors for the raw product as established by Marketing Boards in Ontario and British Columbia are recorded.

Apples

The September 1966 average of wholesale quotations at Toronto on McIntosh per bushel of Canada Fancy grade was $3.45 as compared with $3.98 in September 1965, a decrease of 13%. Apple prices normally decline seasonally in October and November when there are liberal supplies of local apples available on most markets. Prices on storage apples tend to increase after the New Year as the season progresses, although this may be modified by the rate of disappearance as indicated by monthly storage holdings. In March or April when the supply of cold storage fruit is approaching depletion, apples are removed from controlled atmosphere storage and these constitute the bulk of supplies for the remainder of the season. Controlled atmosphere apples command a premium over ordinary cold storage fruit. The apple market is influenced by production levels in the United States and Europe which take the bulk of the average Canadian exports of three million bushels.

Ontario McIntosh per bushel Canada Fancy Grade at Toronto

	September	October	November	December	January	February	March	April	May	June	Seasonal Average
	$	$	$	$	$	$	$	$	$	$	$
1961–62.....	3.63	1.88	2.10	2.07	2.25	2.41	2.61	2.54	—	—	2.39
1962–63.....	3.63	2.98	2.13	2.49	2.84	2.66	2.85	3.19	3.10	3.25	2.91
1963–64.....	3.44	2.63	3.05	3.63	3.38	3.37	3.33	3.31	—	—	3.27
1964–65.....	3.33	2.82	2.98	3.16	3.53	3.73	3.58	—	—	—	3.30
1965–66.....	3.98	2.81	3.05	3.41	3.42	3.45	3.07	2.55	2.75	—	3.16
1966–67.....	3.45	—	—	—	—	—	—	—	—	—	—

Ontario C.A. McIntosh per bushel Canada Fancy Grade at Toronto

	March	April	May	June	July	August	Seasonal Average
	$	$	$	$	$	$	$
1961–62..	—	3.40	3.68	4.85	5.29	—	4.31
1962–63..	3.88	4.06	4.48	5.27	5.61	—	4.66
1963–64..	—	4.69	4.88	4.66	4.87	4.63	4.74
1964–65..	—	4.13	4.24	4.91	5.21	5.42	4.78
1965–66..	—	3.78	4.48	4.18	3.88	4.20	4.10

Peaches

Wholesale to retail quotations at Toronto on Ontario Fresh Peaches in 6-qt. baskets, Canada No. 1 grade, in August of 1966 averaged $1.27 and declined to $1.20 in September as compared with monthly averages of $1.15 in both August and September of 1965. Although peach production levels in Ontario during the past five years fluctuated between 1.6 and 2.1 million bushels, this appears to have had relatively little influence on the market and prices have shown a fairly constant increase. This seems to suggest that the fresh market, which takes about 55% of the total crop, can readily absorb the maximum volume that can be produced without any appreciable downward trend in price.

There was a crop failure in B.C. in 1965 because of frost. Wholesale prices averaged $2.71 per carton in August 1966 at Vancouver and increased to $2.95 in September. Both of these prices are the highest averages of the past five years. The 1966 crop was below average because of low temperature damage to orchards in December of 1964.

Ontario Peaches in 6-qt. Baskets

AT TORONTO—CANADA NO 1. GRADE

	July	August	September	October	Seasonal Average
	$	$	$	$	$
1961........	—	.83	.63	.59	.72
1962........	.99	.89	1.05	—	.96
1963........	—	.96	.89	—	.93
1964........	1.18	1.05	1.05	—	1.06
1965........	—	1.15	1.15	—	1.15
1966........	—	1.27	1.20		

B.C. Peaches, All Varieties, Cell Pack Cartons

AT VANCOUVER—CANADA NO. 1 GRADE

	August	September	October	Seasonal Average
	$	$	$	$
1961........	2.26	2.18	—	2.23
1962........	2.19	1.96	1.90	2.06
1963........	2.31	2.42	—	2.36
1964........	2.48	2.25	2.23	2.33
1965........	—	—	—	—
1966........	2.71	2.95		

Potatoes

The September 1966 average price received by N. B. potato growers for Canada No. 1 White potatoes of $1.12 per cwt. declined seasonally from the August average of $1.22 and was 6% below the September 1965 average of $1.19. Potato prices are ordinarily at their lowest levels during the late summer and early fall. The market is determined by the size of the overall North American late crop for storage. In 1964–65, despite an above average Canadian crop, the market in Canada was strong because of a relatively light late fall crop in the United States which resulted in a brisk export movement. Prices during the latter part of the marketing season in Canada are also influenced by the production levels and market conditions on new crop potatoes in south eastern and western producing areas in the United States.

Average Price Paid to N. B. Growers for Table Potatoes, Canada No. 1 Grade per Hundredweight Delivered to Shipping Points

	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Seasonal
	$	$	$	$	$	$	$	$	$	$	$	$	$
1961–62.......	1.47	.81	.70	.66	.72	.70	.78	.81	.72	.94	1.09	1.64	.90
1962–63.......	2.05	1.01	.98	.76	.93	1.27	1.60	1.43	1.13	1.30	1.35	1.56	1.28
1963–64.......	1.52	.89	.81	.90	1.02	1.04	.97	.94	1.34	2.01	3.68	3.74	1.54
1964–65.......	1.64	1.20	1.52	1.72	2.26	3.16	2.99	2.84	3.79	4.72	5.09	5.45	2.92
1965–66.......	1.92	1.19	2.07	1.89	1.66	1.87	2.00	2.35	2.65	3.13	1.61	—	2.01
1966–67.......	1.22	1.12											

Tomatoes

Opening wholesale to retail quotations on the Toronto market in July for 1966 crop Ontario tomatoes averaged $1.85 per 6-qt. basket, declining seasonally to an average of $1.27 in August and $.81 in September. As compared with the same months in 1965, these prices represented increases of 78%, 74% and 11% respectively. Adverse weather conditions which delayed maturity and curtailed the volume during the first two months of the season were responsible for the increase in prices.

Wet, cool weather in British Columbia also resulted in delayed maturity and August 1966 wholesale to retail quotations on 4-basket crates at Vancouver averaged 16% above those of the same month in 1965. September 1966 prices averaged $3.65 as compared with $3.25 a year earlier, an increase of 12%.

Ontario Field Tomatoes in 6-qt. Baskets
AT TORONTO—CANADA NO. 1 GRADE

	July	August	September	October	Seasonal
	$	$	$	$	$
1961........	2.37	.82	.48	.70	1.02
1962........	1.67	.71	.45	.63	.75
1963........	2.37	.87	.52	.56	.97
1964........	1.29	.96	.62	.66	.85
1965........	1.04	.73	.73	.66	.78
1966........	1.85	1.27	.81		

B.C. Field Tomatoes in 4-bskt. Crates
AT VANCOUVER—CANADA NO. 1 GRADE

	August	September	Seasonal
	$	$	$
1961....................	2.84	2.85	2.84
1962....................	3.00	2.65	2.83
1963....................	2.99	2.85	2.92
1964....................	2.95	2.82	2.88
1965....................	3.22	3.25	3.24
1966....................	3.74	3.65	

Onions

The August 1966 average of wholesale quotations on Ontario Yellow Onions Canada No. 1 grade in 15/3 lb. cello containers at Toronto of $4.80 declined seasonally to a September average of $3.89. Both of these quotations are the highest for the same months during the past five years. Although no estimates of 1966 production are yet available, acreage is smaller than in 1965 and dry weather is expected to have reduced yields. The higher prices may reflect an anticipated smaller crop and the fact that a Marketing Board has been established to handle the sale of the crop.

Seasonal averages during the past five years do not indicate a definite trend.

Ontario Yellow Onions in 15/3 lb. Cello

CANADA NO. 1 GRADE AT TORONTO

	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	April	May	June	Seasonal Average
	$	$	$	$	$	$	$	$	$	$	$	$
1961–62	2.71	2.39	2.35	2.42	2.67	3.43	4.15	4.00	3.86			3.90
1962–63	2.83	1.71	1.63	1.78	1.84	2.11	2.66	2.17	2.08	2.72		2.15
1963–64	2.92	2.21	1.86	1.70	1.91	1.84	1.70	1.64	1.81	1.89	2.09	1.94
1964–65	2.68	2.39	2.01	2.10	2.29	2.45	2.63					2.34
1965–66	3.26	2.66	2.38	1.92	1.75	1.70	1.70	1.65	1.84	3.52	3.76	2.29
1966–67	4.80	3.89										

CARROTS

Wholesale to retail quotations on Ontario Carrots, Canada No. 1 grade in 24/20 oz. cello containers at Toronto in August 1966 averaged $1.63 as compared with $1.78 in August of 1965, a decline of 8%. Prices declined seasonally in both years to an average of $1.41 in September. No definite trend is apparent in the seasonal average prices during the past five years. The relatively high averages during the last four months of the 1961–62 and 1965–66 seasons appear to reflect the somewhat smaller crops harvested in each of these years.

Carrots in 24/20 oz. Cello

CANADA NO. 1 GRADE AT TORONTO

	August	September	October	November	December	January	February	March	April	May	Seasonal
	$	$	$	$	$	$	$	$	$	$	$
1961–62.....	1.45	1.39	1.30	1.45	1.69	1.89	2.16	2.09	2.00	—	1.69
1962–63.....	2.03	1.46	1.40	1.29	1.35	1.58	1.88	1.70	—	—	1.59
1963–64.....	1.68	1.25	1.25	1.20	1.29	1.66	1.46	1.32	1.22	1.15	1.35
1964–65.....	1.73	1.42	1.38	1.50	1.71	1.92	1.89	1.88	1.88	—	1.69
1965–66.....	1.78	1.41	1.43	1.45	1.77	2.06	2.27	2.27	2.49	—	1.88
1966–67.....	1.63	1.41									

Processing Crops

Minimum prices are established each year in Ontario and British Columbia for the major commodities sold to processors. In comparing prices, no comparison with 1965 is possible for tender tree fruits in B. C. because of an almost complete crop failure resulting from low temperatures in December 1964. 1966 Ontario peach prices are unchanged from 1965 but 13% above 1964. Those established in B. C. are 41% higher than 1964. The 1966 price for Ontario pears is 12% less than the 1965 price which was the highest of the past five years. The B. C. pear price in 1966 is 4% lower than the three years prior to 1965. Prices set for peas in Ontario in 1966 are approximately 3% above those of 1965, corn about 4% and tomatoes 10%.

Minimum Prices Paid (per ton) by Processors to Growers for Representative Commodities

			1961	1962	1963	1964	1965	1966
			$	$	$	$	$	$
Peaches	Ontario	Jubilee and Elberta	94.00	105.50	103.50	111.50	125.50	125.50
		Other Varieties	89.00	100.50	98.50	106.50	120.50	120.50
	B. C.	Jubilee and V's	n/a	102.50	105.00	110.00	no price established	155.00
		Elberta	n/a	87.50	95.00	100.00		145.00
Pears	Ontario	Bartlett 2″ and up	108.50	107.50	115.00	107.50	130.50	115.50
	B. C.	Bartlett $2\frac{3}{8}$″ and up	n/a	125.00	125.00	125.00	no price established	120.00
Peas	Ontario		102.00	102.00	102.00	102.00	107.00	110.00
Corn	Ontario		26.00	26.00	26.00	26.00	27.00	28.00
Tomatoes	Ontario		35.10	35.10	35.10	35.10	38.60	42.55

First Session—Twenty-seventh Parliament
1966

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON
CONSUMER CREDIT
(PRICES)

No. 7

THURSDAY, OCTOBER 13, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. S. Ron Basford, M.P.

WITNESSES:

Mr. Louis Rasminsky, Governor, Bank of Canada. *Dominion Bureau of Statistics:* Mr. A. D. Holmes, Director, Prices Division; Mr. Grove A. Lane, Chief, Retail Prices Section.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

24994—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

FOR THE SENATE

Hon. David A. Croll, Joint Chairman

the Honourable Senators

Carter,
Croll,
Davey,
Deschatelets,
Hastings,
Hollett,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

FOR THE HOUSE OF COMMONS

Mr. S. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Clancy,
Code,
Crossman,
Deachman,
Duquet,
Gray,
Irvine,
Leblanc (*Laurier*),
Lefebvre,
Mandziuk,
Matte,
McCutcheon,
McLelland,
Nasserden,
Olson,
Otto,
Ryan,
Saltsman,
Scott (*Danforth*),
Smith—(24).

36 members
Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:

"By unanimous consent, Mr. Basford, seconded by Mr. Allmand, —That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting."

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the

24994—1½

problems of consumer credit, be instructed also the enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, October 13, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Deschatelets, McDonald (*Moosomin*) and *O'Leary* (*Antigonish-Guysborough*—5.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Clancy, Code, Irvine, McCutcheon, Saltsman, Scott (*Danforth*) *and Smith*—9.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel.

Mr. Louis Rasminsky, Governor, Bank of Canada, was heard.

At 12.45 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Deschatelets and O'Leary (*Antigonish-Guysborough*)—4.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Clancy, Irvine, Lefebvre, Mandziuk, McCutcheon, Nasserden, Saltsman, Scott (*Danforth*) and Smith—11.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel.

The following were heard:

Dominion Bureau of Statistics:

Mr. A. D. Holmes, Director, Prices Division.

Mr. Grove A. Lane, Chief, Retail Prices Section.

(*Tables and charts referred to by Mr. Holmes and Mr. Lane are printed herewith as Appendix 8.*)

At 5.20 p.m. the Committee adjourned until Monday next, October 17, at 3.00 p.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Thursday, October 13, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairman.

Co-Chairman Mr. BASFORD: Order. Honourable senators, gentlemen, we have with us this morning the Governor of the Bank of Canada, Mr. Louis Rasminsky, who will give us a general statement on monetary policy. With him are Mr. J. R. Beattie, the Deputy Governor, Mr. G. K. Bouey, Advisor and Mr. B. J. Drabble, Associate Advisor of the Bank of Canada.

Copies of Mr. Rasminsky's statement are now being reproduced and will be distributed a little bit later. Without further ado I will call upon the Governor for a statement.

Mr. Louis Rasminsky, Governor of the Bank of Canada: Mr. Chairman, honourable senators, gentlemen, I am very glad to have this opportunity of appearing before the Committee. I think that there is reason to be concerned at the size of some of the recent increases in Canadian costs and prices, and I naturally would like to do everything that I possibly can to help the Committee in its work.

I know that you are giving the highest priority to a consideration of food prices and that you have heard and will be hearing from witnesses who are qualified to give evidence in this field, which I am certainly not.

The most suitable ground that it seemed to me for me to try to cover in my evidence was the general area of monetary and credit developments. In particular, I would like to try to explain the way in which the Bank of Canada has approached its responsibilities in relation to the country's major economic goals, including the goal of reasonable price stability.

I would like to begin by reviewing, briefly, some of the highlights of the present economic expansion. This expansion has now lasted for 5½ years, and it is by far the longest expansion in our peacetime history. It has brought us some very substantial benefits. When the final results for 1966 are in, I expect that our gross national product will be over 50 per cent higher than it was in 1961 in dollar terms. I take 1961 because that is the year in which the expansion began. I say it will be 50 per cent higher in dollar terms and about 35 per cent higher in real or in physical terms.

Of course, our population has grown rapidly in this period, but, on a per capita basis, G.N.P. will still be about forty percent higher in dollar terms or about 25 percent higher in real terms in 1966 than it was in 1961. This represents a very major improvement in the average standard of living in this country over this brief five-year period.

Employment, as you know, has risen enough to look after a short rise in the labour force and, at the same time, to bring the level of unemployment

down from just over 7½ per cent in the early part of 1961 to the range of 3½ to 4 per cent during the last 12 months. If one takes the expansion period as a whole, that is, 1961 to 1966, the Canadian experience also looks good when compared with the experience of other countries during the same period.

The rate of growth in physical output that we have achieved here has been among the highest in the world during these five years, averaging about 6 per cent per annum. That is the rate of growth of real output while the rate of increase in consumer prices over the period as a whole, although it is higher than we would like to see it, has, until recently, been among the lowest in the world, averaging about 2 per cent. At this point in my prepared paper, which will be distributed shortly, I have included a table which shows for 10 or 11 of the major industrial countries the average rates of change during these years 1961 to 1965 in total output, in the output per head and in consumer price. It also gives for the past year comparative figures of the changes in consumer prices in the same group of countries broken down into food and non-food.

REAL OUTPUT AND CONSUMER PRICES

Percentage Changes in Selected Countries

	Compound Annual Rate of Change			Change in Consumer Price Index 1965 to 1966 (Average of Latest 3 Months Available)		
	1961 to 1966		1st Half/61 to 1st Half/66			
	Total Output*	Per Capita Output*	Consumer Price Indexes	Total	Non-Food	Food
Canada	6.2	4.4	2.0	3.9	2.9	6.8
United States	5.4	4.0	1.5	2.9	2.6	3.9
United Kingdom	2.8	2.1	3.7	3.8	3.3	4.8
Germany	4.6	3.2	3.1	3.6	4.4	2.7
France	5.1	3.6	3.8	2.2	1.9	2.5
Italy	4.5	3.6	5.0	2.3	2.3	2.2
Netherlands	5.1	3.7	4.5	5.8	6.0	5.6
Belgium	4.4	3.6	3.2	4.5	n.a.	n.a.
Sweden	4.5	3.8	4.4	7.0	6.2	7.9
Switzerland	4.6	2.7	3.8	5.0	n.a.	n.a.
Japan	7.8	6.7	6.5	6.0	7.1	4.4

* 1966 output figures estimated.

I do not think it was any accident that we in Canada simultaneously enjoyed markedly rising output and relatively stable prices during this long period of expansion. On the contrary, it seems to me that our record of comparatively stable prices over most of this period notwithstanding the depreciation of the Canadian dollar in 1962 made an important contribution towards maintaining a vigorous rate of economic expansion for such a long time. It protected our international competitive position and it enabled us to avoid some of the distortions and imbalances in the internal structure of our economy which arise when prices are rising rapidly. The concern we all now feel about the more rapid cost and price increases we have recently been experiencing springs, I think, partly from the inequities they inflict on some of the sections of our community and partly from the risk that they may jeopardize a continuance of the long period of expansion we have enjoyed.

A moment ago I said that performance of our economy from 1961 to 1966, both in terms of total output and prices, has been relatively good by international standards. I now have to make an important qualification, or rather to provide an important part of the explanation. We had in fact more scope than most countries for increasing output without this generating upward pressure

on prices because we began the current expansion under conditions of high unemployment, substantial underutilization of productive resources, and a rapidly growing labour force. Productive capacity grew rapidly and it was not until well along in the expansion that the economy was again operating close to its effective limits. For example, it was not until the end of 1963 that unemployment came down to less than 5 per cent of the labour force and not until late 1964 that it fell below the 4½ per cent level. This naturally provided scope for increasing output without pressing on our resources and causing price pressures. For the past year or more, however, there has been very little effective slack left in the economy and this avenue of relief from price pressures has disappeared. As a result, our powers of effective resistance to rising prices have been subjected to a much sterner test, and our price performance has unfortunately deteriorated. This deterioration has been a matter of widespread concern, as evidenced by the deliberations of this committee, because one of our major economic objectives is to have the economy operate with reasonable price stability as well as a minimum of unemployment and underutilization of other productive resources.

There apperar to be some special factors associated with the price rises of the past two years, particularly in the case of food and some services, to which the committee will no doubt be devoting particular attention, but there can be no doubt that the general situation has for some time been one of substantial general upward pressure on prices. In my last annual report, dated February 28, 1966, I made the following comment on price movements:

> ...Although the principal measures of final prices were affected during the year by some special factors, it seems clear that prices were responding to influences of a more general nature and were beginning to rise more rapidly over a wide range of goods and services.

In the same report, I summarized some of the factors that were at that time producing general pressure on our resources in the following terms:

> At the present time, against the background of continuing vigorous expansion in the United States, a number of domestic factors are combining to produce very strong demands on our resources. Private business is engaging in a major round of capital expenditures. The public sector of the economy is proceeding with a rapidly growing volume of capital outlays on educational facilities, hospitals, highways and other social capital while at the same time increasing its other expenditures. Consumers are well placed, as a result of rapidly growing employment and rising wages and salaries, to increase their spending substantially. In these circumstances, the aggregate of all demands on the Canadian economy may outrun the effective capacity of the economy to increase its output of goods and services. In short, we now run the risk of overloading the economy.

Before turning now to a description of the way in which monetary policy has developed over the economic expansion, I would like to make some general observations about the nature and significance of the central bank's operations. These matters are set forth in some detail in the Bank of Canada's submissions to the recent Royal Commission on Banking and Finance, but perhaps it would be helpful in understanding the role that monetary policy plays if I were to comment on three main points.

First, how does monetary policy work? In essence the central bank is able to influence credit conditions, by which I mean the ease or difficulty of raising money and the cost at which it can be obtained, and changes in credit conditions in turn have an influence on the total amount of spending on goods and services. The Bank of Canada exerts its influence mainly in an indirect manner, through

the banking system. The chartered banks are required to maintain cash reserves in the form of deposits with the Bank of Canada and Bank of Canada notes in an amount equal to at least 8 per cent of their deposit liabilities. The Bank of Canada Act gives the Bank powers which enable it to control the level of cash reserves, the most important means being the purchase and sale of Government securities. The extent to which the chartered banks as a group are able to increase their loans and investments is therefore determined by the amount of cash reserves provided by the central bank. The rate of expansion of the banking system has in turn an influence on the position of other financial institutions and on the terms and conditions under which financing may be obtained throughout the credit system.

Changes in the cost and availability of credit have an effect on private spending decisions and therefore on the total level of demand, and this in turn has an influence on the rate of growth of output, the level of employment and the behaviour of prices.

Changes in the total level of demand naturally affect the level of spending on imports as well as the level of spending on domestically produced goods and services. It is also the case that changes in credit conditions have an influence on decisions to borrow or invest funds outside Canada. Indeed, at times in the past quite small changes in market yields on securities in Canada relative to those in other countries and particluarly, of course, the United States, have induced funds to flow into or out of Canada. In some situations, changes in the relative availability of credit in Canada and the United States may be as important as changes in interest rates.

On balance, in a relatively open economy like ours, action to ease credit conditions tends to draw in goods and services from abroad, but to reduce the inflows of capital; while, on the other hand, movements in the opposite direction—that is, a tightening of credit conditions—tend to have the opposite effect. This means, of course, that the central bank must always take into account the effect of its operations on the country's external financial position as well as the larger effect on the level of aggregate domestic demand.

This now brings me to the second main point on which I would like to comment, namely, limitations on the use of monetary policy.

I have just indicated that there are practical limits on how far we can permit credit conditions in Canada to diverge from those in the United States and other countries without setting in motion massive destabilizing inflows or outflows of capital. There are also practical limits of a purely domestic nature on how far we can let credit conditions tighten. For one thing, tight credit conditions have an uneven incidence on different classes of borrowers and on different parts of Canada whose economic problems are not identical. Within the different classes of borrowers, large corporate borrowers appear, on the whole, to feel the direct impact of credit restraint less and later than small borrowers. Large corporations normally have substantial liquid resources that they can draw on, and they have more ready access to the capital market if bank borrowing becomes difficult. Some categories of borrowers find it easier than others to draw funds from foreign countries through the use of foreign capital markets or from foreign parent companies.

There are differences in the response of different sectors of the economy to changed credit conditions. As you are, of course, aware, housing expenditures are particularly likely to be affected when money is difficult to raise. In addition to these inequalities, excessive reliance on monetary policy could result in the development of financial conditions so extreme as to involve a real risk of impairing the functioning of the financial system and impeding the flow of funds for productive purposes through capital and credit markets. The central

bank must always be conscious of these practical limitations on the use of its powers.

A different kind of limitation, and one that applies to all types of public economic policies, is the difficulty of forecasting economic developments accurately. I do not wish to take up the time of the committee in elaborating on these difficulties, but I can simply observe that a very striking illustration of the problem is provided by the fact that the full strength of the current economic expansion in North America could hardly have been foreseen without also anticipating the development of the war in Vietnam.

The third and final point I wish to make about the use of monetary policy is that the operations of the central bank are only one element in public economic policy as a whole. As I have explained, monetary policy affects the level of economic activity through its influence on the total level of demand. So do decisions regarding the level of government spending, the level and structure of taxes, and the form of government financing. Monetary policy can have important effects on our balance of payments and external financial position. So too can the government's transactions, its spending commitments, tax and tariff arrangements in so far as they affect trade and capital flows with other countries. There is an entirely different range of policies which affect the performance of the economy, such as those concerned with raising productivity, improving labour mobility and protecting the public interest against the abuses of market power. Because this is so, monetary policy must be regarded, in my judgment, as only one element in a whole mix of policies which have to be combined in a purposeful way if the overall performance of our economy is to meet the varied and exacting criteria properly imposed by contemporary society. Monetary policy must, of course, bear its full share of the load, but if it attempts too much it will run into some or all of the limitations that I have been talking about.

I would now like to devote the remainder of my remarks to a brief description of the monetary policy that has been followed by the Bank of Canada since 1961, and the main considerations on which it was based.

As I mentioned earlier, the current economic expansion got under way early in 1961 in conditions of high unemployment and underutilization of plant capacity. In these circumstances, the basic policy that we followed in the bank was to permit and encourage enough expansion in the banking system to enable the growth in economic activity to be financed without any appreciable tightening of credit conditions. With the major but temporary exception of the period of the exchange crisis of 1962, this basic policy did not undergo any significant change until the spring of 1965, by which time the growth of the economy was rapidly bringing us back close to the full utilization of the country's effective productive capacity. The relatively stable credit conditions which prevailed after the exchange crisis are indicated by the yields on government securities. The 91-day treasury bill rate remained below 4 per cent and the average of yields on long-term government bonds moved within a range of about 5 to $5\frac{1}{4}$ per cent.

In 1964 the Bank of Canada managed the cash reserves of the chartered banks in such a way that a part of the resources needed by the banks to accommodate the large expansion in loans which was taking place had to be obtained by liquidation of some of the banks' holdings of government securities and other liquid assets. This reduction in bank liquidity was not such as to prevent the banks from continuing to follow strong lending policies in 1964, but it did bring them to a position where their lending policies could be expected to be sensitive to any appreciable further decline in the proportion of their total assets which they held in relatively liquid form.

During the period that I am now talking about—that is, from 1961 until the spring of 1965—there were occasions when the course of events posed a serious threat, for a time, to our external financial position, and the Bank of Canada found it necessary to respond to these dangers. The most serious of these threats was, of course, the exchange crisis of mid-1962. Here the response was to tighten credit conditions very sharply during the summer months as part of a program to deal with the situation. You will recall that the bank rate was raised to 6 per cent in June, 1962, and market rates of interest rose quite sharply. By early autumn of that year our external financial position had improved to the point where credit policy could be eased substantially, and in a matter of months interest rates were back down to about the same levels that had prevailed before the exchange crisis began.

From 1963 on other problems affecting our external financial position arose as a result of measures taken by the United States to deal with her balance of payments difficulties, the most serious being the announcement of the interest equalization tax in July, 1963. But, in these cases the danger to our foreign exchange position was averted by adjustments of the American measures without any marked shift in the general posture of Canadian monetary policy being required.

In my annual reports for 1963 and 1964 I drew attention to the fact that the Canadian economy's margin of unused resources was rapidly being taken up, and that as we approached the limits of our effective capacity it would become more difficult to achieve as rapid rates of real growth with as moderate rates of increases in prices as had been the case in the past. The report of 1963, which is dated February 29, 1964, includes this statement:

> The success of the Canadian economy in achieving sustained and balanced growth in the years ahead and in continuing to reduce its current account deficit will depend to an important measure on its response in terms of prices and costs, to further increases in demand. The existence of large amounts of unused resources has undoubtedly contributed to the relative stability of costs and prices during the past three years of economic expansion. Some of the aggregative measures of economic slack, for example the number of persons recorded by the Labour Force Survey as being without jobs and seeking work, suggest that there is still substantial slack in the economy, but the geographical distribution of unemployment is very uneven, and it is known that the availability on the labour market of many types of skills which are in demand is limited and patchy. Surplus plant capacity also seems to be quite unevenly distributed industrially and geographically. The special characteristics as well as the aggregate amount of the slack in the economy must of course be taken into account in the continued efforts of the public authorities to follow policies which will facilitate the absorption of slack without generating price increases and a deterioration in our balance of payments.

And a year later, early in 1965, I made a somewhat similar observation:

> The margin of unused capacity in the Canadian economy has been considerably reduced as a result of the expansion of the last few years. In certain major industries there is for practical purposes no unused capacity, and in some geographical areas shortages of certain types of labour skill have appeared. It seems clear that the absorption of the remaining amounts of unused resources in the economy will be more difficult, and that we shall have to rely to an increasing extent on improving the adaptability of our growing resources in order to avoid serious bottleneck problems and price pressures. Even in 1964, when we

were absorbing slack in the economy and when unemployment averaged 4.7 per cent of the labour force, the Consumer Price Index in Canada rose by nearly 2 per cent. While it is true that this increase was a relatively modest one by current international standards, it underlines the need to do everything we can to improve the performance of the Canadian economy in the years ahead.

The concern that I expressed on these occasions about bottleneck problems, and the uneven geographical distribution of unused capacity, reflects in part the fact that the central bank is itself powerless to deal with these particular difficulties because monetary policy can be directed only at the aggregate level of demand in the country as a whole. Other policies have to deal with this particular situation.

Turning now to more recent times—1965 and 1966—the general posture of monetary policy has been quite different from what it was in the earlier years of the economic expansion. In recognition of the fact that most of the existing slack in the economy had been taken up, the pressure of heavy demands for funds on financial markets was increasingly allowed, under the policy followed by the central bank, to have an effect on credit conditions. The chartered banks found it necessary to adopt more selective lending policies and the difficulty of obtaining accommodation from other types of lending institutions, notably those specializing in mortgage finance, increased markedly as the result of the intensified competition for funds. Interest rates rose. The Bank of Canada raised its bank rate from 4¼ per cent to 4¾ per cent in December 1965, and to 5¼ per cent in March of this year. The average yield on 91-day treasury bills is now about 5 per cent compared to about 3¾ per cent in the spring of 1965. Other short-term rates are much higher, in many cases well over 6 per cent. The average rate on long-term Government bonds is about 5¾ per cent as against 5 per cent in the spring of 1965. For a time this August, under the influence of strongly rising interest rates in the United States, yields on some of the major long-term Government issues went above 6 per cent. Yields on prime conventional mortgages have risen from 6¾ per cent in early 1965 to 7¾ to 8 per cent, and yields in excess of 8 per cent are not uncommon. Credit conditions in Canada have, of course, also been influenced by broadly similar developments in the United States and Europe.

INTEREST RATES

	Sept. 1961	Sept. 1963	Sept. 1964	Sept. 1965	Sept. 1966
	%	%	%	%	%
Bank Rate	2.67	4.00	4.00	4.25	5.25
3-month rates—					
Treasury bills	2.42	3.68	3.80	4.12	5.02
Prime finance co. paper	3.02	4.09	4.25	5.16	6.33
Long-term rates—					
Government bond average	4.98	5.22	5.22	5.30	5.79
Non-Government bonds (McLeod, Young, Weir)	5.47	5.54	5.56	5.85	6.71
Conventional mortgages	7.00	7.00	6.75–7.00	7.25	7.75–8.00

These credit conditions that I have been describing have not been brought about by the central bank calling a halt to the expansion of the banking system. On the contrary, bank loans and the money supply have continued to rise, though at a lower rate than earlier in the expansion. In the past twelve months

general bank loans have increased by 8 per cent. Within this category business loans have increased by 7½ per cent, and consumer loans by 11 per cent, but in recent months the banks' consumer loans have levelled off as has the over-all total of all forms of consumer credit.

At this point in my statement you will find a table showing for the chartered banks, on various dates and averages covering various periods from September, 1961 to September, 1966, figures of the total money supply, and of the privately held money supply. By "money supply" I mean the total of currency in chartered bank deposits. The table also contains figures as to the total assets of the chartered banks for their liquidity ratio, and for various categories of chartered bank loans.

CHARTERED BANKS
(Average of Wednesdays)

					Annual Average Percentage Increase		
	Sept. 1961	Sept. 1964	Sept. 1965	Sept. 1966	Sept/61 to Sept/66	Sept/64 to Sept/66	Sept/65 to Sept/66
				(prelim.)			
	(millions of dollars)						
Currency and chartered bank deposits—							
Total (inc. Govt. deposits)	14,432	17,342	19,477	20,687	7.5	9.2	6.2
Held by general public	14,259	16,762	18,913	20,213	7.2	9.8	6.9
Chartered banks—							
Total assets	13,356	16,053	18,025	19,122	7.4	9.1	6.1
Liquidity ratio	37.1	32.1	30.2	29.9			
Canadian dollar loans—							
Total	6,418	8,831	10,555	11,420	12.2	13.7	8.2
General	5,539	8,095	9,407	10,150	12.9	12.0	7.9
Business	3,560*	4,880*	5,572*	5,997*	11.0	10.9	7.6
Consumer	995*	1,715*	2,126*	2,357*	18.8	17.2	10.9

* Month-end August.

In 1965 and 1966 monetary policy has had to take account of a number of special developments, primarily the collapse of Atlantic Acceptance and the effect of United States balance-of-payments measures. In the case of the shock to confidence resulting from the finance company failure, the Bank of Canada added to the cash reserves of the chartered banks in order to ease the liquidity of the banking system and financial markets generally. The Bank also enlisted the help of the chartered banks in seeking to avert wider repercussions on the position of other financial institutions. However, these actions did not stop the trend towards less easy credit conditions. On the contrary, the effect of the episode on confidence produced a marked tightening in some areas of the financial market and a further upward movement in interest rates.

Throughout the whole period of the economic expansion it has been necessary for monetary policy to be concerned with the need to obtain a large enough inflow of capital to finance our large deficits on current account and at the same time to try to avoid a larger inflow than necessary for this purpose. This problem has been complicated by a number of measures taken by the United States to improve its balance of payments position, including the guideline measures, and by arrangements regarding the level of Canada's

foreign exchange reserves which were necessary in order to maintain the access of Canadian borrowers to the United States long-term new issue market. I do not think that the committee would wish me to go into the details of these matters at this time. In any case they are set out in my last annual report. The main point I would like to make here is that though the Bank of Canada naturally had to take into account the agreements regarding reserves, this consideration did not in fact seriously interfere with the development of our monetary policy. During 1966 purchases from United States residents of its own securities by the government have made it possible for the agreement regarding reserves to be met without placing too many constraints on the use of monetary policy.

Mr. Chairman, this concludes my account of how monetary policy has developed over the whole of the economic expansion. As I have indicated, the recent credit situation, with its unusually high interest rates, has been part of a world-wide condition. There is now a widespread view, which I share, that in the western industrial countries monetary policy has had to carry too much of the burden of resisting inflationary pressures.

If we look at the matter of price developments—price movements generally, it is clear that the general course of prices is the result of all the forces of demand and supply that operate throughout the economy. Monetary policy and certain other broad instruments of policy have an influence on the aggregate demand for goods and services and it is necessary that these instruments be deployed in a way that encourages demand to expand in line with, but not in excess of, the effective productive capacity of the economy. Today I have been discussing with you only the particular instrument, monetary policy, for which I have some responsibility, and I shall be glad to answer any questions that members of the committee may have in this area. There are, of course, as I have indicated, other important public policies which influence the demand side of the picture, and particularly fiscal policy and monetary policy. In addition the movement of prices is influenced by a whole host of public and private policies, including those affecting our productivity and efficiency, the skill and training and mobility of our labour force, the relationship between incomes and productivity, the degree of competition in the economy, tariff and trade policies and many others that go far beyond the scope of central bank action.

It is clear that, like other countries, we in Canada have a great deal to learn about living with prosperity without permitting it to degenerate into inflation. This problem must be solved, because reasonable price stability is an essential element in continuing economic growth. We must search for more effective measures and better combinations of policies to reconcile the goals of reasonable price stability and sustained economic growth. I am sure that your deliberations will make a contribution in this direction.

Co-Chairman Mr. BASFORD: Thank you, very much, Mr. Rasminsky. My confidence in the central bank is immense, because you said at the beginning of your statement that you would have available for distribution the text of your statement by the time you finished, and while you were reading the last paragraph it came in the door. We will just wait for it to be distributed.

Mr. RASMINSKY: I hope you have other reasons for confidence.

Co-Chairman Mr. BASFORD: I have. Mr. Allmand?

Mr. ALLMAND: Mr. Rasminsky, some people have suggested that the introduction of the Canada Pension Plan on January 1, 1966 has had some effect on the inflationary pressures that have resulted since the beginning of the year. Since the employers have all started to make contributions to this plan, I am wondering if this might have some effect on the aggregate demand, and let us say the increase in prices of products in those industries. What is your opinion,

do you think the introduction of the Canada Pension Plan has had any effect on inflationary pressures?

Mr. RASMINSKY: I think that it is very difficult to have a dogmatic view of that. With the pressures on the economy that we have had, there has been an opportunity to pass on in the form of higher prices the contributions that have been required under the Canada Pension Plan, and the reduction in the take home pay, so to speak, involved in the worker's contribution may have been one of the factors affecting the labour negotiations that have taken place since them. The effect of the contributions, of course, is to place funds at the disposal of the provinces, which are in a certain sense savings. One would have to know, and I do not know, what effect the availability of these funds has had on the spending plans of the provinces. These funds have run to quite a considerable magnitude, and to the extent that they did not affect the spending plans of the province would be a savings offset to their spending plans. The fact is, of course, that the amount of borrowings by the provinces from the public, which has been met through the issue of their own securities, has increased. I cannot answer more precisely than that.

Mr. ALLMAND: I was thinking particularly of the contributions by employers. I was wondering if you thought they might not be passing off their contributions in the form of higher prices for their product. Do you have any opinion on that?

Mr. RASMINSKY: I really would have no basis for an opinion as to whether they have specifically been passed on. In a situation of very heavy demand such as we have had, I think there is a pretty strong presumption that, in the case of anything which is regarded as an increase in cost, an attempt has been made to pass it on.

Mr. ALLMAND: Do you consider the Canada Pension Plan a form of savings?

Mr. RASMINSKY: In itself, to the extent that there is an increase in contributions and deductions from payrolls, and employers' contributions, it is a form of savings conceptually. It is a form of savings, but to the extent that it gets passed on in the form of higher prices, or to the extent that it affects wage negotiations and gets compensated in the form of higher wages, the savings aspect of it tends to be offset in its effect on prices.

Mr. MCCUTCHEON: Mr. Rasminsky, I came here with a little fear and trepidation that I might not understand what was going on, and perhaps I do not; but I would like to compliment you, sir, on the straightforward way in which you have given us, laymen, a look at economics.

My first question is in reference to the statement on page 8 of your submission:

> ...the full strength of the current economic expansion in North America could not have been foreseen without also anticipating the development of the war in Viet Nam.

Is it a fair assumption, then, that the end of the war in Viet Nam would mean a slowdown in our economic activity?

Mr. RASMINSKY: I would hope that that would not be the case, Mr. McCutcheon. I think that the war in Viet Nam, the American expenditures in Viet Nam, have been in recent times quite an important sustaining factor in the American economy. To the extent that expenditures in Viet Nam go on increasing quarter after quarter, the likelihood of any rapid turn-around in the American situation—which of course affects us very much—is reduced. As long as those expenditures go on increasing, the demand situation in the United States looks very strong. If there should be a cessation of hostilities there, there will be a new situation confronting the American administration, which they

will have to deal with. If they come to the conclusion that they have to substitute other types of demand, or perhaps find it unnecessary to restrain the growth of demand through measures of fiscal policy or other measures that they may be contemplating, they will be faced with a new problem.

Over the past several years they have been quite alert at dealing with situations of this sort.

Although I agree that, having given this illustration, I have in a sense invited the question that you have asked, I think it would be unwise to take it for granted that the continuance of prosperity in North America is dependent upon the continuance of the war in Viet Nam. I certainly did not mean to imply that statement.

Mr. McCutcheon: Thank you very much. According to press reports and different statistical information, it would appear that the money supply in this country has increased markedly since the middle of 1965. Do you consider this to be a normal increase?

Mr. Rasminsky: There were certain abnormal factors, Mr. McCutcheon, which affected the increase in the money supply in 1965. If one takes the year 1965 as a whole, and if one considers the money supply, as we traditionally do in this country as the total of bank deposits, including savings accounts and time deposits, the money supply increased by 12 per cent in that year.

That was an abnormally high rate of increase in the money supply and it is something that requires explanation and defence by the central bank, coming as it did in the fourth or fifth year of economic expansion and at a time when we were certainly impinging on the effective limits of our resources.

I gave that explanation and defence in some detail in my last annual report. In essence, what I said was this, that the failure of Atlantic Acceptance and the difficulties surrounding other financial institutions which were associated with that failure, caused the public to prefer, to a very marked degree, to shift its holdings of liquid assets from the form of holdings of finance company paper and other short-term instruments, and also to some extent from the form of deposits in non-bank financial institutions—it caused the public to shift its preferences away from these things towards holding its liquidity in the form of bank deposits, including special instruments like time certificates of deposit, which were issued by the banks.

The central bank regarded it right to accommodate this shift in the preferences of the public, by permitting the banking system to expand at the abnormal rate of expansion that occurred in 1965. Even with this abnormal rate of expansion, credit conditions in the country tightened—were permitted to tighten—in 1965.

If we had not accommodated this shift in preferences, they would have tightened even more, they would have tightened to a degree which, in all the circumstances of the time, rightly or wrongly, we regarded as inappropriate.

Interest rates would have risen a good deal more sharply, credit would have become even more difficult to obtain. Once this episode was passed, then we went to a more normal rate of expansion in the money supply. As you will see from the table on page 14, the money supply over the past 12 months increased, if one takes the total, that is, including Government deposits, at a rate of just over 6 per cent; and if one excludes Government deposits and considers the privately held money supply, at a rate of 6.9 per cent. That is the explanation that I would give, sir.

You will appreciate that implied in this explanation there is a theory as to what the central bank should be primarily concerned about. The theory on which we operate in the Bank is that what we should be primarily concerned about—what our job really is—is to do what we can to encourage from time to time the development of credit conditions, by which I mean the cost and

availability and other terms of credit, which are appropriate to the situation of the economy as we see it.

We do not focus primarily on changes in the money supply, and I think that the example of 1965 is an excellent illustration of this. I do not think the changes in the money supply are a reliable criterion for the central bank to take as a sole criterion, nor do I think they are a reliable guide or indication as to what the monetary policy of the central bank really is.

Mr. McCutcheon: I understand, then, that the central bank, in effect, did go to the aid of Canadian finance trust companies at the time of this fiasco.

Mr. Rasminsky: That is one way of putting it. I did not think of it in those terms precisely. I felt that the central bank was going to the aid of the Canadian credit system, that we were taking action, which, though it is true that it was focused on the position of a particular group of institutions, was not taken primarily, for the sake of those institutions, but was taken with a view of preventing serious liquidity difficulties developing throughout the whole credit system from which everybody would have suffered.

Mr. McCutcheon: Actually, the money increase came at a time of pretty full employment.

Mr. Rasminsky: Yes, it did.

Mr. McCutcheon: And it did not mean more production or more goods, but, as a result, it meant more money chasing the same goods, and, therefore, higher prices. Is that a fair way of putting it?

Mr. Rasminsky: No, sir. It maybe fair, but I would not agree with that way of putting it, sir. The essential question that one has to ask here is: did the increase in the money supply mean more spending? The money supply itself is not the crucial point. The crucial point is: is it used?

Mr. McCutcheon: And "how is it used?"

Mr. Rasminsky: Yes, how. First "if," and second "how". If someone, say an investor, who previously held his liquidity in the form of a short term note of the XY Finance Company now holds his liquidity in the form of a deposit receipt from a bank, or a short term note of a bank, this in itself does nothing to the amount of spending at that time in the economy, but yet it results in an increase in the banking system and an increase in the money supply.

Therefore, I think you have to introduce the concept of the effect of this on spending before you can say that this increase in the money supply in 1965 resulted in increased money chasing the same amount of goods.

Mr. Saltsman: Mr. Chairman, may I ask one supplementary question.

Co-Chairman (*Mr. Basford*): Yes, Mr. Saltsman.

Mr. Saltsman: I have just one short question to ask the Governor. To what extent does an increase in the money supply affect the level of interest rates? Does it have an effect on the level of interest rates, if the money supply is put in equivalents.

Mr. Rasminsky: Yes, sir. In the ordinary course of events, if the central bank wishes to encourage, let us say, a reduction in the level of interest rates, it would run the banking system easier, and, by putting more cash reserves into the banks, it would encourage the banks to buy liquid assets—that is the first response of the banks—liquid assets in the form of short-term government securities, or whatever the banks decided to buy. This action taken by itself would tend to cause some easing of credit conditions both in the banking system and elsewhere, and, taken by itself, would have an influence of this character on interest rates.

But, of course, central bank action is only one action operating in the field of interest rates. One has to consider also what people in the private market are doing, and what their preferences are. Central bank action resulting in expan-

sion in the banking system may be defensive in the sense of preventing interest rates from rising. If the demand for credit is very, very strong, an expansion of central bank assets resulting in an increase in the amount of cash in the banking system may simply prevent interest rates from rising as much as they otherwise would.

I think that, if one takes the central bank action itself, one does not really get a complete answer to your question. One has to consider what else is happening in the whole economic picture.

Mr. SALTSMAN: If fiscal policy were introduced at the same time as money supplies were increased, would this have a tendency to take part of the whole problem?

Mr. RASMINSKY: I think that fiscal policy and monetary policy are, to some extent, alternatives. I do not think that either can take care of the whole problem. It is the case that, if one has an inflationary situation to deal with, if one is concerned about the amount of pressure on resources, that one has a choice of policies and one may decide to use one or the other or both in conjunction.

I have explained the way credit policy operates, that if the central bank follows a fairly restrictive policy in those circumstances, the rate of interest and the availability of credit may tend to dampen down demand. A fiscal policy which takes money away from people by increased taxes, or which fails to put as much money into the economic stream through reduced expenditures or through a combination of those two things, also has the effect of reducing the total amount of demand in the economy and of operating in the same direction as a tight monetary policy.

Mr. MCCUTCHEON: Mr. Rasminsky, do you think that the delay in providing for a so-called flexible interest rate on bank loans has affected monetary policy so much that it has helped to encourage inflation?

Mr. RASMINSKY: No, sir.

Mr. MCCUTCHEON: Might I ask one more question referring to the Atlantic Acceptance Corporation fiasco? God forbid it should happen again, but would it mean another surge of money in the event of the collapse of another institution?

Mr. RASMINSKY: I refuse to contemplate the possibility!

Mr. SCOTT (*Danforth*): I have a supplementary question. It is a possibility, whether you want to contemplate it or not, but would the stability, generally, of the banking system be more secure, if these institutions were brought under some kind of federal control such as our banks are?

Mr. RASMINSKY: I think that the Atlantic Acceptance affair has resulted in a pretty thorough soul searching on the part of those who are concerned with this part of the credit system. I think that the short-term borrowers from the market,—the finance companies—have been having a very hard look at their own practices. I think they have imposed upon themselves, or had imposed upon them by investors, standards of liquidity which are quite dieffrent from what they were in the past, and that they have made a very considerable adjustment to the situation. I think it is also the case that investors themselves have become increasingly discerning and sophisticated and have required information of a type which they did not have before. I think that the situation now regarding these companies is in a considerably healthier state than it was a couple of years ago. As to whether these institutions should be brought under a form of central control—I suppose there are constitutional problems involved there; some of these institutions, in fact most of them, I think, are provincially incorporated—I do not know of any intention on the part of government to try to bring these institutions under federal control.

Mr. McCutcheon: I was not asking about the constitutional angle; I was asking about the monetary situation and whether there could be any advantage if there was some method of bringing such institutions under federal control rather than voluntary restraint imposed upon themselves.

Mr. Rasminsky: I would think that, after the experience of Atlantic Acceptance and the shock that was given both to the institutions concerned and to investors in them, there is a very good chance that any recurrence of this incident can be prevented without the need to bring these institutions—

Mr. Smith: Probably to provide provincial supervision would be as effective.

Mr. Saltsman: Besides the question of safety to depositors, there have been arguments advanced recently that the monetary policy would be more effective if all institutions like banks should be under some jurisdiction of the central bank so that central bank policies can be made more applicable to financial institutions than just to chartered banks alone. I would appreciate your comments on that.

Mr. Rasminsky: This is a matter we have had to devote a fair amount of thought to in connection with our submissions to the Porter Commission. The argument is sometimes advanced as to whether or not institutions of this type, or institutions which receive deposits or which have short-term claims due on them should be made part of the central reserve system, that is required to hold deposits with the Bank of Canada so as to make monetary policy effective. The conclusion we came to on examining this was that this was not the case. This relates in a sense to what I said before about the quantity of money not being the most crucial criterion in monetary policy. We came to the conclusion we had enough control over credit conditions through the chartered banks. These institutions are competitive with the chartered banks and the public has a choice between holding their claims on the chartered banks or on these institutions. If we wish to ease credit conditions and we increase the cash reserves of the chartered banks, and the banks then buy some assets or make loans, some of the money created in that way will find its way to these near-bank institutions. Presumably the public will want to hold its liquidity claims in about the same proportion as between banks and non-banks, and if money flows into these institutions, they too will be in a position to increase their assets and so spread the impact of the initial impulse we gave through our action. So that whatever other reasons there might be—and reasons of a different character are sometimes advanced, some reasons of equity as between banks and non-banks because the banks are required to hold these reserves and liquid assets ratio that do not apply to other institutions—from the point of view of effectiveness of monetary control, the conclusion we reached was that it was not necessary to bring these near-bank institutions under the control of the central bank, and this conclusion, I may say, was accepted or was arrived at independently by the Porter Commission and is reflected in their report.

Mr. Saltsman: With regard to monetary policy which seems to have some control of levels of interest rates, and I presume this is one of the objectives of monetary policy—your action does have some effect on chartered banks in that they are restricted by law to a certain—

Co-Chairman (*Mr. Basford*): Mr. Saltsman, I do not see that this is a supplementary question to Mr. McCutcheon's question. Since you are not too far down the list, I suggest that we let Mr. McCutcheon continue his questioning.

Mr. McCutcheon: Mr. Rasminsky, it is my understanding that recently many Canadian brokerage houses have put wires into the New York Exchange, and I wonder if you would care to comment on what seems to be an apparent

increase in the flow of Canadian investment out of Canada and into the United States. Could you comment on the basic underlying causes of this?

Mr. RASMINSKY: I do not think I could make any worth-while comment on that. I know it is the case that the purchase of some securities by Canadians and particularly by Canadian mutual funds has increased recently, or had increased recently—I think in the last month or so it is down compared with what it had been. This, of course, is only one of the items in the capital account. It is an offset to certain other major capital inflows that had occurred. By and large the net inflow of capital in all forms has been adequate to cover our current account deficit, to maintain our reserves at reasonable levels. I don't think that I could attempt to analyse the reasons that have led to particular groups of Canadians buying foreign securities over the last year.

Mr. MCCUTCHEON: You would though probably agree this is not necessarily lack of confidence in the way we operate here in Canada?

Mr. RASMINSKY: I do not think that—

Mr. MCCUTCHEON: It is more probably due to a broader spectrum, a broader outlet?

Mr. RASMINSKY: I think that the considerations must be considerations that are related to their views on particular securities. I certainly do not think this outflow represents any lack of confidence in us.

CO-CHAIRMAN (*Mr. Basford*): Would it be due to investors wanting to buy investments in the parent company rather than the subsidiary?

Mr. RASMINSKY: In many cases they cannot buy investments in the Canadian subsidiary. I do not think I have any detailed information except that provided by published lists of the portfolios held by mutual funds—to indicate what specific securities these investors have gone into.

CO-CHAIRMAN (*Senator Croll*): Mr. Bryce, in speaking to us on the day of the first hearing, in his table indicated there was a considerable rise in the investment increment over the period from 1949 to 1965, one of some consequence. I think he volunteered the information that in the main it was insurance investment. Can you indicate to us the proportion, without detail, of how much that has grown, that which has gone outside the country, the amount of the buying of investment, whether equities or otherwise, that has resulted in the last, say, two or three years from mutual and insurance funds?

Mr. RASMINSKY: I am very sorry, Senator Croll, but I do not have information that would enable me to reply to that.

Mr. IRVINE: Mr. Chairman, perhaps you will permit a question supplementary to an earlier question. I want to get the answer or advice of Mr. Rasminsky on the subject before I have to go to another meeting. I would like to ask, if I might: If we were to remove the bank interest rate, in your opinion, would the law of supply and demand be a sensible level? Secondly, what would be the dangers of such a move, as far as it might affect consumer credit or our economy generally?

Mr. RASMINSKY: Dealing with the second question, the 6 per cent ceiling on the bank rate really does not apply. This has not been applied to consumer loans through the banks, and it would be my opinion that the entry of the banks into this field, even though the rates charged have been closer to 10 per cent, let us say, than to 6 per cent, has had the effect of reducing the average cost of consumer credit to the consumer, on account of the competition that this has offered to others in the consumer credit business.

Dealing with the first question, as to whether the removal of the 6 per cent ceiling would result in rates being established at a reasonable level, I do not know what you mean by "a reasonable level." I do not even know what I myself would mean by "a reasonable level." I think there would, in fact, be a

more competitive market for bank loans. This is a restriction which makes it necessary for the banks to ration out loans when they cannot meet the entire loan demand and, therefore, if they have more leeway this imperfection in the market would be removed; but at what level the interest rate would settle down would depend on the conditions prevailing at the time, including, of course, the banks' ability to compete with other financial institutions in gathering in funds to let out. At the present time, I suppose, the 6 per cent ceiling places some inhibition, some limitation on their ability to compete.

Mr. IRVINE: Would it not be your opinion, then, that the rates likely would go up considerably at the start and then perhaps come back down gradually to a sensible level—shall we say, within 1 or 1½ per cent of where it is today; or would you not care to hazard a guess?

Mr. RASMINSKY: I do not think I would want to hazard a guess. You mean 1 to 1½ per cent higher than it is today?

Mr. IRVINE: Yes.

Mr. RASMINSKY: Under the terms of the legislation that the Government has proposed there would, of course, initially be a ceiling related to the average yield on government securities, and I do not think that that ceiling would enable the banks right now to charge as much as 1½ per cent more.

Mr. IRVINE: Not right now.

Mr. RASMINSKY: I am afraid I could not hazard a guess as to what would happen.

Mr. SALTSMAN: Mr. Rasminsky, I would like to ask you to compare interest rates in Canada with those in the United States, perhaps from two points of view: commercial lending and mortgage loans on houses.

Mr. RASMINSKY: The general level of interest rates in Canada is, of course, higher than the general level of interest rates in the United States. I think there is no occasion for surprise in this, because Canada is a country which imports capital and the United States is a country which exports capital. We do not generate in this country enough savings to meet our capital requirements. The difference shows up in the form of a deficit in our balance of payments which has to be covered through the import of capital. It is necessary, in order to induce an import of capital, for the structure of Canadian interest rates to be higher than the structure of American interest rates. It is simply a reflection of the relative scarcity of capital in Canada.

On the particular questions that you ask about, bank lending rates, at the present time the prime rate in the United States for bank loans is 6 per cent. At the present time the maximum lending rate in Canada for ordinary commercial loans is 6 per cent. There are, of course, certain supplements, the effective supplements which for a long time have been in force in the United States in the form of compensating balances, and these are apparently being introduced into the Canadian banking system.

I would think that in the general level of bank charges or bank lending rates that there is not a great deal of difference now between the prime rate—the rate charged to prime customers—in the United States and in Canada.

CO-CHAIRMAN (*Senator Croll*): May I put just one supplementary question. Mr. Rasminsky, you said that compensating balances are apparently being introduced into the Canadian banking system. As a matter of fact, they have been in the Canadian system for almost a year, have they not, to your knowledge?

Mr. RASMINSKY: I do not know that I could put a date on it, but certainly within the last year.

Co-CHAIRMAN (*Senator Croll*): Yes, and it always troubles me when I am asked the question as to under what authority, and how, this is done. I never seem to find an authority for it in the Bank Act. Is there such authority?

Mr. RASMINSKY: I really am not the one who should answer that question. The administration of the Bank Act is in the Department of Finance and in the hands of the Inspector General of Banks, but I think the answer is that there is no specific authority for it and no specific injunction against it.

Co-CHAIRMAN (*Senator Croll*): There is another question on the tip of my tongue, but I do not want to embarrass you.

Co-CHAIRMAN (*Mr. Basford*): I might just say this at this point, that there will be a committee of the House of Commons examining the revisions of the Bank Act in very close detail. While the provisions of Canada's banking law in relation to monetary policy is of importance to this committee, I would hesitate having this committee go into an exhaustive examination of the Bank Act.

Mr. SMITH: Perhaps, Mr. Chairman, now that the phrase has been introduced, Mr. Rasminsky could give us an explanation of "compensating balances".

Mr. RASMINSKY: A compensating balance is an arrangement under which the borrower from a bank agrees to leave with the bank on deposit a certain amount which might be related to the amount of the loan, or line of credit, to compensate the bank for the services the bank incurs in connection with the servicing of the account.

Mr. SMITH: It has the effect of increasing the borrower's interest rate?

Mr. RASMINSKY: It could be looked on in that way.

With respect to Mr. Saltsman's second question on comparing mortgage rates, I will say that according to the Federal Reserve Bulletin of August, 1966 the average interest rate on conventional first mortgages on new houses in the United States averaged just under 6½ per cent. I gave some figures in my statement as to the conventional rate in Canada.

Mr. SALTSMAN: Since we are talking about consumer prices I would like to see if we can relate some of the activities of monetary policy to this question of consumer prices, and specifically the question of interest and how interest affects consumer prices. With the general level of interest rates in Canada rising, and because of higher mortages and increasing compensating balances in the banks, could you give me an opinion as to what effect higher interest rates have on consumer prices, or how they are reflected in consumer prices.

Mr. RASMINSKY: The most general statement that I would make on that subject is that I think the overall effect of rising interest rates is to reduce the increase in consumer prices. It is the case, of course, that in some things interest costs are important, and for those particular things one would perhaps be entitled to focus on the direct relationship between interest costs and prices. Housing would be an example of this. There is a clear and fairly direct relationship between the level of interest rates and house rents, which consist partly of interest amortization payments. But, taking the situation generally, the question that one would have to ask one's self, if one were trying to trace the relationship between consumer prices and interest rates, is: What would the level of consumer prices have been if interest rates had not gone up? There I would have no hesitation in my reply. I think that one cannot measure the rise precisely, but I have no hesitation in thinking that the rise in interest rates, and the reduced availability of credit in Canada which is associated with the rise in interest rates, does exercise a general dampening effect on demand, which has the effect of keeping consumer prices from rising as much as they otherwise would.

Mr. SALTSMAN: This has been one of the things I have found difficult to understand. I know that the attitude has been generally that increased interest

rates dampen down demand, but up until the present there does not seem to be too much indication of high interest rates dampening down demand. On the other hand, higher interest rates are reflected in the costs of an increase in business. If you pay high interest on the money you require for inventory, expansion, machinery, or for any other purpose, then this cost must be passed on at some level, and I assume it is a cost that is passed on. Can I gather, then, from what you say that on balance the use of interest rates as a way of dampening down demand has a better effect for the consumer than perhaps the increased cost that might accrue to individuals in the form of higher interest rates being passed on in the form of profits? I hope I am making myself clear on this. It is rather complicated.

Mr. RASMINSKY: Yes. You say, Mr. Saltsman, that there is not much dampening effect on demand by interest rates?

Mr. SALTSMAN: Except in respect to housing. I should have made that exception, perhaps.

Mr. RASMINSKY: Of course, one does not know what the demand would have been had different policies been followed and which would have resulted in a degree of monetary expansion that would have prevented interest rates from rising. Now, it would be my judgment (and this is a matter of judgment; it is something that I do not think can be demonstrated) that under looser monetary policies which would have been necessary to prevent interest rates from rising—let us assume that we would have been able effectively to have such policies (and there are some questions about that too) it would be my judgment that demand would have increased more sharply than has been the case, and consequently there would have been greater pressure on prices. I have to believe that or there would be no sense in monetary policy.

Mr. SALTSMAN: In your statement you indicated some disenchantment with the use of monetary policy generally. There are some serious limitations on the use of monetary policy, and I think the Minister of Finance himself has indicated that in the light of experience he would have placed less reliance on monetary policy and more reliance on other things. I know it is always great to have hindsight, but could we have pursued another mix of policies in the past that would have given us the effect of reducing demand and at the same time keeping interest rates lower than they actually became?

Mr. RASMINSKY: Our problem really is that we want to do a great many things at the same time. We want to keep the economy operating at a very high level of capacity. We could have had policies, probably policies which resulted in a smaller rate of increase in consumer prices at substantially higher levels of unemployment. But we do not want that.

Monetary and fiscal policy to some extent, as I have said, are alternatives. If over the course of this expansion—in the course of the past few years—there had been a tighter fiscal policy, then presumably we would have had the same results with a somewhat more relaxed monetary policy and a somewhat lower level of interest rates, although here one, of course, has to be conscious of international limitations on our ability to control the policies. We must have a level of interest rates that will induce enough capital inflow to cover our deficit, or we will get in trouble internationally. The tighter fiscal policy to produce these results perhaps would not have provoked universal enthusiasm; it would have involved higher taxes, it would have involved the elimination perhaps of some government expenditures. There is no very easy way, therefore, out of this. There is no very easy way to live with prosperity.

In addition to all these policies that affect the demand side, there are of course a whole range of policies that affect what I have been calling the supply side of the thing, policies relating to the efficiency with which the economy

operates—to our productivity, labour training and mobility, and that whole range of questions.

Mr. SALTSMAN: When Professor Neufeld was here before us he indicated that there was considerable discussion going on as to the advisability of Canada being on a fixed exchange rate, and that some suggestions had been made to alter this kind of policy or to look at it to see if Canada might not be better served by having a modification of a fiscal exchange rate, by being able to alter its levels in order to take into account the matter you have raised concerning the influence of other countries on what would happen to the economy of Canada. Would you care to comment on the fixed exchange rate or control of the exchange rate as might affect the consumer?

Mr. RASMINSKY: I really would not care to, but since you have asked the question, I will do so.

I know that there has been a discussion in academic circles—and I do not use the term in a pejorative sense—regarding the type of exchange system that we should have. This discussion is not confined to Canada. There are many academic economists in the United States, too, who feel that more flexibility in exchange rates would facilitate international adjustments.

As you know, we were on the fluctuating exchange rate for some time. When we were on the fluctuating exchange rate we were in violation of our undertakings to the International Monetary Fund, through which the main countries of the world have agreed on a certain code of exchange behaviour, which includes fixed exchange rates, subject to change under certain conditions. During most of the time we were on a fluctuating exchange rate our exchange rate was very high, and at that time we were able to deviate from the agreed pattern, I think partly because our exchange rate was so high, and if it did anybody any harm it was not other countries.

When the fluctuating exchange rate is advocated now I am never quite sure whether it is because people think our exchange rate should be raised or because it should be lowered. I think that our own experience of the fluctuating exchange rate shows that the fluctuating exchange rate is not guaranteed to produce an exchange rate which is really basically suitable for the circumstances of the country. The exchange rate under fluctuating conditions is very much influenced by capital movements, and it probably was one of the factors causing the very large deficits on current account in our balance of payments that we ran even when the economy was not at all fully employed.

I would see no reason why we should have to contemplate a fluctuating exchange rate in order to achieve equilibrium in our balance of payments. I think with the right combination of policies here that we can do it under the international exchange rules to which we have agreed.

Mr. SALTSMAN: Thank you, Mr. Rasminsky. I have many other questions, but I will save them for the discussion on the Bank Act.

Senator CARTER: Mr. Rasminsky, in actual practice as opposed to theory, is it possible, do you think, under our present system, to have full employment for an appreciable period without inflation?

Mr. RASMINSKY: Yes, sir. I think we have to work very hard at it. I think we have to learn a great deal about it and to be willing to break new ground in various types of policy in order to achieve that; but I have been disconcerted and discouraged a bit by what seems to be too easy an assumption that inflation or steadily rising prices are the necessary price that we have to pay to achieve full employment. I am not prepared to be defeatist about that and to accept that view. Now, it is true that one can point to a great deal of history, if one wants to be defeatist. Countries have tended as they have approached the limits of capacity in their output to get into inflationary situations.

On the other hand, we have also been breaking some new ground. I think that the stress that has recently been raised in public discussion on the factors that have the effect of increasing output, the stress that is laid on education, on upgrading of labour skills, on management skills, on mobility, over a period of time should be quite helpful factors in achieving this result of having prosperity without inflation. There is a whole range of other questions here which I would not really be prepared to discuss, but they are important and they are under consideration of the Economic Council at the present time. One is the problem of the relationship between incomes and productivity. Then there is also the whole range of questions associated with incomes, policies, which I am sure the committee will be considering at a later time.

It is much too early to reach a defeatist conclusion and to say that, even with proper combination of policies, with the willingness to learn from experience, we cannot at the same time have very high levels of employment and monetary stability.

Senator CARTER: Is it correctly inferred from what you have just said that your statement is based on the premise that a 2 per cent increase in prices would not be inflation? You would not mind 2 per cent? You are not saying that it is impossible to have no increase at all, but if it can be kept within 2 per cent you would not regard a 2 per cent rise as inflation. Is that a correct interpretation?

Mr. RASMINSKY: I would much prefer to have no increase in prices. On the other hand, the difficulty of measuring prices and of allowing for changes in the quality of goods and the increased use of services in the economy as we become more affluent, and what seems to be some tendency for the rates of productivity in goods production to increase more rapidly than in services—this probably does cause an upward drift of some sort, even in non-inflationary conditions in the consumer price index—whether it is 2 per cent or 1 per cent I do not know.

Senator CARTER: We have not reached that happy state yet. In the event that policy makers have to choose between one or the other, you either have inflation or you have unemployment, is there a limit somewhere, a point where one or the other becomes the lesser of two evils?

Mr. RASMINSKY: That seems to me, senator, to be, if I may say so, a false choice to present, the choice between inflation and unemployment. It assumes that you can go on having inflation and avoiding unemployment. In actual fact, you cannot. At some point or other, if you have inflation, you will it seems to me inevitably get such stresses and strains, such disturbances in your economic system, that your economic system is going to break down. You may have the choice between inflation and unemployment during any given period of time. I mean, for a short time perhaps you could improve an employment situation by being prepared to acquiesce in inflation, but after period of time the efforts of people to protect themselves against the consequences of inflation will inevitably result in the economic system seizing up and giving at least a period of temporary recession and unemployment.

Senator CARTER: When I asked that question I was thinking about Prime Minister Wilson in England who seems to be deliberately implementing a policy which is going to produce, that is, increase unemployment. I gather that you, as one who is at the very centre of operations of the economy of our country, are not particularly satisfied that our present monetary system cannot be improved. Is that a fair statement?

Mr. RASMINSKY: I am sure it can be improved.

Senator CARTER: Can you give the committee just a few examples of what changes you might forecast that would make an improvement?

Mr. RASMINSKY: These are matters, as you know, that are subject to legislation at the present time and that will be discussed in the Banking Committee. We have suggested various changes, which the Government proposes after discussion with us, in the Bank of Canada Act, which we feel will result in an improvement in the functioning of the system.

Senator CARTER: I would not want to overlap the proceedings of this committee with those of the Banking Committee. If you would have patience with me as a layman, I would like to get a little more clear concept of some of the terms you are using in your brief. At the bottom of page 5 and the top of page 6 you say:

> The chartered banks are required to maintain cash reserves in the form of deposits with the Bank of Canada and Bank of Canada notes in an amount equal to at least 8 per cent of their deposit liabilities.

I would like a little more information on that term "deposit liabilities". Does it mean deposits which people have made with the bank or does it mean loans that the banks have made to people?

Mr. RASMINSKY: It means deposits that people are holding with the banks. They are liabilities from the point of view of the bank. These deposits take various forms. Some of them are ordinary demand deposits—current accounts. Some of them are savings deposits—the bulk of them. Then there are various other instruments of deposits that the banks issue, on which they pay higher rates of interest than they pay on savings deposits—time instruments of deposit. The banks also in the past have issued bearer notes up to various periods, up to a year. These are all liabilities that the bank owes to the public.

Senator CARTER: Liabilities to people who are doing business with the bank?

Mr. RASMINSKY: Yes, sir.

Senator CARTER: Is there a relationship at all, apart from this 8 per cent, between the reserves of the banks and the reserves of the central bank—that is, is there any other relationship?

Mr. RASMINSKY: This is the basic relationship, senator—the requirement to hold a proportion, now 8 per cent, of their deposits in the form of cash with us. This is what gives us our control, this is our main point of control, since we can increase or decrease the amount of central bank cash that they have, and our action then works its way through the banking system.

In addition to that cash reserve ratio, the banks have, under an agreement reached with the Bank of Canada in 1956, maintained a supplementary secondary reserve in the form of day to day loans to the money market, or treasury bills, equal to 7 per cent of the deposits of the public with them. This makes a total of 15 per cent of what we call liquid assets. That is a voluntary arrangement, but in the revisions of the banking legislation which are now before Parliament, it is proposed that this arrangement should be statutory and that the Bank of Canada on giving notice, should have the power to require the banks to maintain such secondary reserves.

Senator CARTER: I seem to recollect that a few days ago I read in the local press that we had to reduce the reserves of the central bank, that they had become in excess of our agreement with the International Monetary Fund, that we had some international agreement that our reserves would not go beyond a certain figure?

Mr. RASMINSKY: We have an agreement with the United States, senator, with regard to our official reserve holdings of gold and U.S. dollars. You will recall that, in the summer of 1963, the United States announced an imposition of a tax, which they called the interest equalization tax, under which residents

of the United States buying foreign securities have to pay 15 per cent tax. If this tax had been applied to Canada, it would have caused great difficulties for us. This was reflected in the fact that on the day of the announcement our bond market was very, very weak, and we lost a great deal of exchange.

Over the week-end, after the Americans had announced the imposition of the tax, we explained the situation to them in some detail, pointing out that from their own point of view it did not make a great deal of sense to apply the tax to Canada, to prevent the capital from coming into Canada, because we immediately turned round and spent it on American goods. If we did not have it, we would not be able to spend it, and we would have, somehow or other, to reduce our imports of American goods. The Americans then agreed to exempt from the tax new issues of Canadian securities.

They were understandably anxious, of course, that Canadian borrowers should not issue securities in the United States market on a scale which would lead to our borrowing more than we needed to cover our current account deficit, and the Government of Canada agreed that we would not encourage access on a scale that would result in an increase in our reserves.

At that time the level of our reserves was about $2,700,000,000. Towards the end of last year, when the Americans were considering their new balance of payments program and were imposing additional restrictive measures, there were further discussions with the United States as a result of which the Government of Canada agreed to reduce the target level for our reserves from the previous target of $2,700,000,000 to $2,600,000,000—including our I.M.F. credit position.

At the present time we are a bit below that target. We are well within the range of a level of reserves which is acceptable to both countries.

Senator CARTER: That is a sort of voluntary restriction on the import of capital, is it? Could it be termed that way?

Mr. RASMINSKY: That would be one way of putting it, senator. It is perhaps a voluntary restriction on the *net* import of capital, because the Government said at the time that, in addition to the normal influence on capital flows of the general range of policies followed, if it were necessary or desirable to take this action in order to keep our reserves within the target level, the Government would repatriate its own securities; and, in fact when the Government repatriates its own securities it uses exchange to buy them from the United States, it reduces its own external debt, at the same time improving the balance of payments position of the United States.

In fact, in the course of this year, the Government has bought back—has deliberately reduced its reserve holdings by buying back—quite substantial amounts of the long-term issue which it sold in the United States in 1962.

In addition, the Government has used authority given to it by Parliament at the time of the last estimates, I believe, to buy from United States holders some bonds issued by the International Bank for Reconstruction and Development. This also has had some effect in keeping our reserves well within the target figure.

Senator CARTER: Although our dollar is pegged to the American dollar, it is not rigid? There are still limits of fluctuation?

Mr. RASMINSKY: Yes, sir. Under the articles of agreement of the international monetary fund, every member having declared a par value can allow its actual exchange rate in the market to fluctuate within a range of one per cent on either side of the declared par value.

Senator CARTER: I seem to remember that in the same article there was reference to the fact that at that particular period our dollar had weakened a bit, and I was just wondering what had caused that.

Mr. RASMINSKY: I do not recall the article, but any currency will fluctuate. The demand and the supply of foreign exchange coming on to the market over any given period of time are not necessarily in equilibrium, though the country's basic position may be in equilibrium, and these day-to-day fluctuations in exchange rates are caused by this.

Senator CARTER: But there is a fixed limit below which you must take action to prevent it from falling.

Mr. RASMINSKY: That is right, yes.

Mr. SCOTT (*Danforth*): Mr. Chairman, a lot of my questions have now been answered. Mr. Rasminsky, in your judgment, is Canada presently in a condition of serious inflation?

Mr. RASMINSKY: Those are qualitative words, Mr. Scott, that different people might interpret in different ways. In my judgment, there is reason to be concerned about the recent trends in Canadian costs and prices.

Mr. SCOTT (*Danforth*): In your judgment, how long has this condition of concern existed? When did it start?

Mr. RASMINSKY: I reflected the concern in my last annual report. The concern, the looking forward, was, of course, reflected in the monetary policy that was followed in the course of 1965 and 1966.

Mr. SCOTT (*Danforth*): I do not want to ask you anything outside your jurisdiction, so do not be afraid to decline to answer. What is the nature of the actions which we could take against inflation that would have some effect on prices?

Mr. RASMINSKY: The nature of the actions that could be taken? Well, I would say, Mr. Scott, that it really covers the whole range of actions that I have referred to in my paper, some of which, as you say, are quite beyond the scope of the central bank. In the first place, on the demand side, we have to do the best we can to see that the overall policies affecting demand are right.

Now, this is not something where you can turn to the back of the book and find the answer. There are judgments involved at every stage, including some judgments as to prospects, because your policies always have to be forward looking. Those policies on the demand side are basically fiscal policy, debt management policy, monetary policy. In addition to the things that affect the demand for goods, there are, of course, a variety of things which affect our ability to produce goods, and there we are concerned with matters of productivity, with having the right skills in the labour force and having the right skills in the right places; we are concerned with the prevention or elimination of bottlenecks as far as possible.

Then there is the whole range of difficult questions connected with costs, connected with the relationship between incomes, wages and productivity.

I can do no more in reply to your question than to indicate the general range of the subject matter that I think we should be looking at.

Mr. SCOTT (*Danforth*): Those are all actions that would have immediate effect.

Mr. RASMINSKY: I think so, yes, sir.

Mr. SCOTT (*Danforth*): There is another question I wanted to ask you. You were discussing the monetary policy, etc. To what extent is the ability of the central authority to influence monetary policy, etc., impaired or not impaired by the actions of the provinces?

As I see it, the provinces and municipalities are now spending more than the central Government, and I was wondering what effect their growing strength and influence has on the market, impeding and impairing, as it is, our ability in Ottawa to control things like interest rates and monetary policy generally.

Mr. RASMINSKY: I think in the exercise of monetary policy one has to take the situation as one finds it, and one finds that the provinces are very large users of financial markets and they are therefore an important factor influencing the demand for funds and influencing the level of interest rates. I would not say that this interferes with the exercise of monetary policy. I think that the growing role of Government in our economic system does mean that to an increasing extent other types of public policy including fiscal policies and Government expenditure policies have become important; that the role of monetary policy is not the role of a panacea or something that can regulate the economy completely and provide all the answers. Within the field of fiscal policy, I think that the growing percentage of the total expenditures on goods and services which are made by provincial governments raises very important problems regarding the use of fiscal policy as an economic regulator. This is one of the new challenges we seem to have—that is the challenge of trying to achieve a situation where views of the overall economic situation have more influence of the taxation and expenditure policies of governments other than the Government of Canada. Monetary policy has somehow to be fitted into this general framework.

Mr. SCOTT (*Danforth*): What you are saying is that monetary policy has reached the limits of its effectiveness to some extent?

Mr. RASMINSKY: This is something I would not want to be terribly categorical about. I have felt that, in the situation now existing and that we have been confronted with over the past year or so, monetary policy has been pushed about as far as it is appropriate to push it. These are matters upon which one would not want to be too dogmatic, and we always have to have regard to what is happening outside our own borders. But there are these limitations on the use of monetary policy to which I devoted some attention in my paper.

Mr. SCOTT (*Danforth*): You mentioned that the American guideline have complicated our monetary policy. Could you expand a little on that?

Mr. RASMINSKY: May I find that point in my paper?

Mr. SCOTT (*Danforth*): I took a note of it; I hope I took it down right.

Mr. RASMINSKY: What I said is "From 1963 on, other problems affecting our external financial position arose as a result of measures taken by the United States to deal with her balance of payments difficulties—". Later I said that "Throughout the whole period of the economic expansion it has been necessary for monetary policy to be concerned with the need to obtain a large enough inflow of capital to finance our large deficits on current account and at the same time to try to avoid a larger inflow than necessary for this purpose. This problem has been complicated by a number of measures taken by the United States to improve its balance of payments position, including the guideline measures and by arrangements regarding the level of Canada's foreign exchange—".

One of the questions we have had to have in mind in our monetary policy has been the American guidelines and the reserve agreement. We have had to have that in mind because if we had a level of interest rates here which set up inducements to capital inflows which were excessive, taken in conjunction with everything else that was happening in our balance of payments, and resulting in large additions to our reserves, then our exemption under the interest equalization tax would have been jeopardized and we might have been faced with the prospect of a serious exchange situation. This is something the central bank has had to have in mind at all times. The interesting question would be whether having to have this in mind led us to follow a monetary policy which was substantially different from the policy we would have

followed had it not been for this complication. I think that there have been occasions on which the timing of some of our particular actions of monetary policy might have been a bit different had it not been for this complication that I have referred to. But taking it by and large, I would feel that the existence of the guidelines and the reserve agreement has not resulted in our being obliged to follow a monetary policy which is materially different from the policy which in any case we would have thought appropriate in relation to our own domestic circumstances.

Mr. Clancy: May I be permitted a supplementary question? Can you tell me, Mr. Rasminsky, how long it takes for the effects of monetary policy to get down to consumer level? After all that is what we are dealing with—the consumer.

Mr. Rasminsky: I wish I could answer that question. Among other things, we have much to learn about the way monetary policy works, and we are doing the best we can to get some idea as to the lags that are involved in monetary policy and the impact of monetary policy on various sectors of the economy. The first impact of monetary policy is in the banks' liquid position or their holdings of liquid assets, and it takes some time for a reduction in the banks' liquid assets, for example, to be reflected in their lending policies. It depends on what margin of liquid assets they have that they regard as being excessive. When the banks feel they have to contract credit—I take that back because the banks have not contracted credit; they have gone on expanding credit—but if they have to expand it a little more gradually or a little more slowly than in the past, then they have a choice as to where the impact should be permitted to fall.

Thinking of the impact on consumer credit, I would say, at a guess—and this is really no more than a guess—that there could have been a period of about a year between the time that the banks began to feel a little tight in their liquidity and the time that one could see some reflection of that in the reduced rate of expansion in consumer loans, but I do stress that that is not a scientific answer, it is a guess.

Co-Chairman (*Mr. Basford*): I was waiting all morning to ask about time lags and to ask what improvements could be made to reduce the time lag between actual economic conditions and monetary and fiscal policies adopted to change those conditions.

Mr. Rasminsky: That is a different type of lag. That is what I think my friends the economists call the recognition lag. That is the lag that is related to the intelligence of the monetary or the fiscal authorities. I think really the direct answer to your question, Mr. Chairman, would be that what can be done to improve the recognition lag is to get better people running the institution, because there is a flow of information which one looks at every day, and I think it is terribly important, in looking at this information, to look at it fresh each day and with an open mind. Some of the information, of course, is out of date by the time one gets it. I think the D.B.S. does an extremely good job in producing statistics, but it is unfortunately the case that there are lags in the information that becomes available. And I think one way of reducing the recognition lag would be to support the D.B.S. in trying to maintain their staff and their flow of information.

Senator Carter: Would computers help on that?

Co-Chairman (*Senator Croll*): They have computers there. They are almost fully computerized now.

Co-Chairman (*Mr. Basford*): I made a slight error, Senator O'Leary, and I recognize Mr. Smith first.

Mr. Smith: Mr. Rasminsky, you were talking about the computation of funds between the consumer, the private borrower and the municipal, provincial and federal institutions. You suggested that some borrowing was less

inflationary or had less pressure on the upward cost of living than others. Would it be fair to say that borrowing by companies and individuals to increase productivity was the least inflationary of all borrowing?

Mr. RASMINSKY: So far as pressures on the capital market are concerned, the capital market, of course, is very homogeneous. Funds are very mobile in the capital market, and I suppose every type of borrowing has the same sort of effect on interest rates.

I think that if one takes the economy as a whole and takes a long enough period of time, in the problem of inflation we are concerned with the relationship between demand and output, and borrowing which increases output, particularly if it increases it over a relatively short period of time, would produce some increased flow of goods which would be non-inflationary. I think one would have to know what the result of other types of expenditure was before being very precise in one's reply. If other types of public expenditure had the effect of increasing efficiency in some other way, through increasing the skill of the population, for example, or dealing with bottleneck problems, that too over a period of time would be anti-inflationary.

Mr. SMITH: In other words, you could classify provincial government borrowing, for example, or municipal government borrowing, if it were borrowing to train its people better to produce schools, and so on, that would be more desirable in the long run, an anti-inflationary type of borrowing rather than borrowing spent on non-productive returns?

Mr. RASMINSKY: I think anything that increases the productivity of the economy and produces more goods or lays the groundwork for the production of more goods, is less inflationary than the other type of borrowing you described.

Mr. SMITH: As interest rates increase is there one class of borrowing that is generally forced out of the borrowing market and forced to curtail its expenditures sooner than another? For example, the borrower who is borrowing for business purposes or the local municipality, do interest rate increases price them out of the market quicker than they price a consumer buyer?

Mr. RASMINSKY: I think it is pretty clear that as interest rates rise more lending and borrowing tend to be done directly between lenders and borrowers, rather than through financial intermediaries such as trust companies or insurance companies. This is one of the reasons I believe why high interest rates tend to operate with particular severity on the supply of capital available for mortgages. I think that housing is one of the places which is most susceptible to high interest rates because there are not public offerings of mortgages. That is not the way mortgages are normally financed. They are financed through intermediaries—trust companies or, of course, the C.M.H.C. So that particular type of borrowing, I would say, was clearly one which is perhaps quite susceptible to rises in interest rates.

Mr. SMITH: By corollary, various kinds of taxation, do some impinge more directly on increases in the cost of living than others?

Mr. RASMINSKY: This is a question that I really do not think I am competent to answer.

Mr. SMITH: I was not on the committee when Mr. Bryce was here and maybe dealt with that.

CO-CHAIRMAN (*Mr. Basford*): Supplementary to Mr. Smith's previous question: Did not the Economic Council do some work on some papers resulting from a seminar at York University on stabilization policy, in which they came to the conclusion that an increase in borrowing costs had almost no effect on huge corporations, and as the corporations became smaller it had a greater effect on decreasing their borrowings and decreasing their capital expenditure projections?

Mr. RASMINSKY: I do not recall the details of that study, Mr. Basford. I think that in a situation of tight credit conditions associated with high interest rates large corporate borrowers are perhaps less likely to be affected than small borrowers. For one thing, they have normally large amounts of liquid assets that they can dispose of, and they have the opportunity of going to the capital market by issuing their own bonds in a way that small borrowers do not. This is one of the reasons why in any period of credit restraint the Bank of Canada, in its conversations with the chartered banks, always reminds them of the desirability of maintaining the flow of funds to small business borrowers, because they have nowhere else to go and are more likely to be affected adversely in a period of sharp credit restraint.

Mr. SMITH: Perhaps I could ask one question supplementary to Mr. Basford's question now.

With respect to the banks making loans in times of tight money, is it not cheaper—I expect it is always cheaper for them to make large loans, but does it now show up with greater clarity in the fact that it is cheaper in the terms of management and looking after the account to make one large loan than it is to make a large number of small loans? Does not that tend to make money more available to large corporations?

Mr. RASMINSKY: I do not think the banks would agree with that way of putting the situation. The banks operate, as you know, through some thousands of branches, and each branch manager is naturally anxious to look after his own customers. Most of the bank customers are relatively small business people. They maintain deposit accounts, and you cannot have deposit accounts if you are continually turning down applications for credit. I think it would be probably accurate to say that the costs associated with large loans are proportionately less than the costs associated with small loans, but the banks do state that they seek to protect their relatively small business customers to the maximum extent they can from the impact of tight credit conditions.

Senator O'LEARY: I am sure mine is a valid supplementary question now, Mr. Chairman. At page 14 of your prepared statement, Mr. Rasminsky...

Co-Chairman Mr. BASFORD: I am recognizing you, senator, quite apart from the fact that your question is supplementary.

Senator O'LEARY: Mr. Rasminsky, at page 14 you say:

> Today's...

and I emphasize "today's"

> ...credit conditions have not been brought about by calling a halt to the expansion of the banking system.

And then you go on to prove this in the table below. In the concluding sentence you say:

> —but in recent month's the bank's consumer loans have levelled off as has the over-all total of all forms of consumer credit.

I realize there is a distinction between "levelling off" and "calling a halt", but I am wondering to what degree they have levelled off. For that reason my question is: Do you have comparative figures for the last six months of 1966 as against those for the year 1965? I am referring to 1966 to the end of August. You could take an eight-month period, if you wish, or a six-month period. Perhaps you have the figures month by month.

Mr. RASMINSKY: Yes, I do have the figures that I think are what you have in mind, senator. If one looks at the consumer credit outstanding in 1965 one sees the rate of growth of consumer credit by the chartered banks was 22 per cent. In the first quarter of 1966 this was 15 per cent, and in the second quarter of

1966 there was a decline—I am sorry; I must go back. The figure of 15 per cent was not for the quarter; that was an annual rate. It is directly comparable to the figure of 22 per cent. For the second quarter there was an actual decline at an annual rate of 4 per cent, and in the month of July there was an increase at an annual rate of 8 per cent.

Senator O'LEARY: What about business loans for those same periods?

Co-Chairman Senator CROLL: Senator O'Leary, may I suggest a question at this moment? How did that reflect itself into other loans? Did the finance companies increase their business at the expense of the banks?

Mr. RASMINSKY: No. In the case of the finance companies the comparable figures are in 1965 an increase at an annual rate of 10 per cent. In the first quarter of 1966 the increase was at an annual rate of 8 per cent. In the second quarter of 1966 it was about even—a decline of about one per cent. In the month of June, which, of course, is included in the second quarter, there was an increase at an annual rate of 3 per cent.

These similar figures for consumer loan companies are, for 1965 an increase of 14 per cent; in the first quarter of 1966 an increase at an annual rate of 15 per cent; and in the second quarter of 1966 an increase at an annual rate of 9 per cent. These figures of outstanding consumer credit, of course, are very much affected by what is happening to automobile sales. Automobile sales have an important part in this.

Senator O'LEARY: Now, will you give me the percentage figure for the business loans?

Mr. RASMINSKY: In 1965 business loans increased by 14 per cent. In the first quarter of 1966 they increased at an annual rate of 3.3 per cent, and in the second quarter of 1966 they increased at an annual rate of 2 per cent.

Senator O'LEARY: Thank you.

Co-Chairman Senator CROLL: All my questions are now supplementary.

Co-Chairman Mr. BASFORD: You just told me not to allow any more supplementary questions.

Co-Chairman Senator CROLL: I want to get just one in. Would you care to comment on the credit tightening in 1962 compared to our present position? You do not use the phrase "credit tightening"—I know you are not using that term—but compare the 1962 position to the present position in respect to what we commonly call credit tighening.

Mr. RASMINSKY: Yes, the 1962 credit tightening—and I do not mind using the term—was really of quite a different character from the present position. The sharp rise in interest rates in 1962—incidentally, it was much sharper than the rise in interest rates that we now have, and much more concentrated. It was directly related to the need to correct our foreign exchange position. Exchange reserves had fallen in the course of the exchange crisis to extremely low levels. Once the steps were taken to deal with the situation by the measures of Government policy that were announced at the end of June, 1962, and by our own action in fixing the bank rate at 6 per cent, it was necessary, in our opinion, to make a deviation in the flow of monetary policy, and to try to establish a level of interest rates in Canada which was sufficiently attractive to foreign investors, and which pushed enough Canadian borrowers on to the U.S. market so that this great gap in our exchange reserves should be filled. To do this we had to put a very sharp squeeze on the banking system in 1962, because once confidence was re-established by the measures of Government policy announced at the time there was a very strong public appetite for securities. People wanted to buy Government bonds again. We had to force Government securities out of the banking system in order to keep interest rates high enough

for a period of time sufficient to fill the void in our exchange reserves. That was done in the summer of 1962.

As soon as our reserves got back to a reasonable level we were able to ease the monetary policy again.

In 1962, as you know, the economy was in process of recovery, but there was still a great deal of slack present, so a reversion to easier credit conditions was appropriate once the international situation had been solved.

The present tightness of credit conditions, if I may use that expression, is of quite a different character. It is not basically related to our international position but is related to our domestic position. It is basically intended to limit, to affect the decisions of corporations and individuals as regards their spending plans. It is intended to limit the amount of spending that is going on in the economy because of the view that spending has been increasing at a rate which is in excess of the ability of our economy to provide goods at relatively stable prices.

Co-Chairman Senator CROLL: But orginally in 1962 you knew the problem and how to remedy it, once you were permitted to apply whatever had to be done. You knew you could remedy that situation if you were allowed to do certain things over a period of some time. That is correct, is it not?

Mr. RASMINSKY: It was a more readily definable problem than we have now, yes.

Co-Chairman Senator CROLL: At that moment you had some target in mind that, given authority, you would be able to correct the situation in say two, three or four months, that is, in 1962?

Mr. RASMINSKY: I do not know that I had a specific time target in mind. I wanted to correct it as soon as possible, yes.

Co-Chairman Senator CROLL: Now we are in a somewhat different position, of course. All the parties have been going around and saying to the people, "We have never had it so good." Now you people come along and say, "You have to live with prosperity and you haven't done so."

Mr. RASMINSKY: No, we say, "You have been doing very well, and we want you to continue to do so well."

Co-Chairman Senator CROLL: But you say, "You haven't learned to live with prosperity."

Mr. RASMINSKY: I say, "We have not."

Co-Chairman Senator CROLL: Having in mind whatever remedial action you have taken to correct the situation—and I think you indicated to Mr. Scott that it was not anything of a new concern because you had referred to it in your report a year ago—can we with some certainty anticipate the easing of credit for business or other purposes; or is the situation still a matter of such deep concern that we can do nothing about it for the moment?

Mr. RASMINSKY: I do not think there is any easy answer to this, Mr. Chairman. As I have indicated in reply to an earlier question, I think monetary policy has been pushed about as far as in all the circumstances was appropriate. However, as to forecasting what credit conditions are going to be like three or six months from now that really depends so much on other things that have not happened as yet, on how the economy develops, on what decisions are taken regarding fiscal policy, for example, Government expenditure policy, as to what happens on the wage side, so I simply have no way of holding out the sort of assurances that you are inviting me to hold out.

Senator O'LEARY (*Antigonish-Guysborough*): My question is supplementary to Senator Croll's question. Although I realize the direct relationship of the monetary policy in 1962, what was the yield on conventional mortgage loans at the end of 1962? We know what it is today.

Mr. RASMINSKY: In Canada?

Senator O'LEARY (*Antigonish-Guysborough*): Yes.

Co-Chairman Mr. BASFORD: The answer will be forthcoming in a minute.

Mr. RASMINSKY: Mr. Chairman, having taken time for a moment of reflection, I would like to add to what I said to Senator Croll. I think interest rates and credit conditions are very high, and I shall be very pleased indeed if the economic situation, including Government policies, develop along lines that make it unnecessary to continue the present level of interest rates. I have been very encouraged at the indications of growing support for the view that the burden on monetary policy of trying to control the present situation and to prevent it from degenerating into something which is bad for all of us has been very great, with the hope implied that there may be a different mixture of policies or a different development in the situation that makes it unnecessary to continue with credit policies which are as restrictive as are the present policies.

Co-Chairman Senator CROLL: Even in fiscal policy there are limitations?

Mr. RASMINSKY: That is right.

Co-Chairman Senator CROLL: You say the Government should reduce expenditures, and the Government makes a move to reduce expenditures; but the biggest spender is municipal and there is nothing you can do but make a prayer, hoping that perhaps they may not have the money.

The other matter is a matter of taxation, and you know the reluctance of the provincial government and the dominion Government to impose further taxation. I am not so sure as to how much further we can go or where you can go to do these things which you contemplate might do some good.

Mr. RASMINSKY: One is concerned here with the very subject matter of your committee. As I understand it the reason you are having these hearings is that there is a widespread, and I think quite proper, concern in the country at the increase in the cost of living.

Co-Chairman Senator CROLL: Sure there is concern, but everybody coming before us pleads not guilty, and we are having a hard time to find just where the difficulties are.

Mr. RASMINSKY: That is what I have been trying to help you to do.

Co-Chairman Mr. BASFORD: Senator O'Leary had a question.

Mr. RASMINSKY: The answer to Senator O'Leary's question is that at the end of 1962 the prime residential conventional mortgage rate was 7 per cent.

Co-Chairman Mr. BASFORD: Mr. Urie?

Mr. URIE: Thank you, Mr. Chairman. My questions have all been asked and answered.

Co-Chairman Mr. BASFORD: I apologize, but I have a few questions. It seems to me there is a great body of economic opinion in the country that is predicting in the next few months or eight months deflationary pressures in the economy. Is that your view or are we going to have to continue fighting inflation?

Mr. RASMINSKY: I do not feel that I have to choose between those two views. I know that there is some view that we may be going into a recession. This view is based, I think, primarily on the fact that the second quarter G.N.P. figures were a good deal less strong than the first quarter G.N.P. figures. The first thing I would want to say about that is that the first quarter G.N.P. growth was completely unsustainable. The G.N.P. increased in the first quarter at 4.4 per cent in dollar terms. That is at an annual rate of over 16 per cent. Quite obviously, there just was not room in the economy to accommodate a continued increase in demand at that rate. So the shift to a lower rate of increase in the

second quarter was a shift in the direction of a more sustainable position than would have been the situation if the first quarter rate had been maintained.

Secondly, it seems to me that in looking at this comparison between the first quarter and the second quarter, one must have regard to some special features in the situation that affect the comparison.

One of those features is a pretty technical matter that I hesitate to mention. When the economy is operating full out, right up against the limit of its resources, as we seemed to be doing in the first quarter of the year, then the chances of a seasonal upturn of a type that you would normally get in the spring, after the winter, just are not present. There is not the capacity to expand further and for this reason, when you apply your normal seasonal corrections to some of the figures for the second quarter that are being used as indicators of an impending recession, you may get a flat line or even a decline, because things were so high in the first quarter.

In addition to that, I think there was a certain amount of borrowing of expenditure from the second quarter into the first quarter on account of the incidence of the Ontario sales tax. I think there was quite an amount of expenditures that would ordinarily have been made in the second quarter of the year, which were made in the first quarter.

Of course, some of the recent monthly indicators have been very much affected by strikes, work stoppages, in various industries.

Even when one allows for these special factors, one would have to say that the real underlying pressure of demand was less in the second quarter than it was in the first quarter, but it would have to be less if it were to be sustained.

If one wants to form a view on the future, one would certainly have to take account of the situation in the United States. There, as I indicated in my paper, the Viet Nam expenditures have been very important and on the face of it they now seem to be increasing more rapidly.

I think that, particularly after an expansion which has lasted as long as this one, one has to be constantly alert. The longer the expansion has gone on, the more one keeps one's fingers crossed about it, the more alert one wants to be about the possibility of it coming to an end. I think one should keep an open mind, but I do not think the evidence of the type that you referred to is conclusive at all.

Co-Chairman Mr. BASFORD: Mr. Bryce said to us the other day that not until the late thirties, and not until after the war did we take remedial steps. We thought the business cycle was something we just lived with—periods of high activity and low activity. Not until after the war did we really consciously try to avoid that. I take it that the Bank of Canada now is endeavouring to avoid any decreasing of the business cycle or levelling off of the business cycle?

Mr. RASMINSKY: Our policy basically is directed towards the same objectives as we conceive to be the objectives of public policy generally. Our policy is directed towards trying, within our own sphere of influence, to provide conditions that will be conducive to sustained economic growth, combined with a reasonable degree of price stability.

Co-Chairman Mr. BASFORD: We have heard a good deal from the United States about presidential guidelines on wages and prices and profits, and the same has been recommended to this committee. I am wondering whether you would be prepared to express a view. Professor Neufeld particularly was very strong on a system of Canadian guidelines.

Mr. RASMINSKY: I understand this is going to be the subject of a special report of the Economic Council, Mr. Chairman, and I would prefer to wait to see what the Economic Council has to say about it.

Co-Chairman Mr. BASFORD: In answer to some questions by Mr. McCutcheon, about more money chasing fewer goods, and in relation to the money supply, if prices go up and there are inflationary pressures in the

economy, is there a tendency with people to take their money out of long-term savings, because of those inflationary pressures, and spend it, and therefore create a situation in which more money is chasing fewer goods?

Mr. RASMINSKY: That would represent a very advanced stage of inflation. I do not think that we are near that position, Mr. Basford, and I certainly hope that our policy will be directed towards keeping us from getting anywhere near that position.

Co-Chairman Mr. BASFORD: Do you think that that represents a so-called panic situation?

Mr. RASMINSKY: Yes, I do.

Mr. Marcel JOYAL: Mr. Rasminsky, I take it that you will use a number of indicators or criteria before you will indicate what your monetary policy will be.

Mr. RASMINSKY: Yes, sir.

Mr. JOYAL: These have nothing to do with money supply or money demand?

Mr. RASMINSKY: Perhaps you would complete your question.

Mr. JOYAL: First of all, you gave us a very, very high rate of increase in the G.N.P. for the first quarter.

Mr. RASMINSKY: Yes.

Mr. JOYAL: And a general softening in the second quarter. Have you any figures for the third quarter?

Mr. RASMINSKY: Unfortunately, those figures are unavailable for Canada. For the United States, however, recently there have been at least unofficial accounts of what their third quarter G.N.P. is, and the United States, incidentally, had a softening in the second quarter similar to the one we had. Their G.N.P. went up by $17,000,000,000 in the first quarter, by $11,000,000,000 in the second quarter, and, according to this unofficial account, it went up by $13,000,000,000 in the third quarter. I am not sure that our own performance will be of the same character.

Mr. JOYAL: Thank you very much.

Co-Chairman Mr. BASFORD: There being no further questions, I would, on behalf of the Committee, thank you, Mr. Rasminsky, for yourself and for your Deputy Governor and your two Advisors, for coming here today and giving this very useful statement on general monetary policy.

I do apologize that it has been somewhat long and wearisome. You might put it down to something of a dry-run for your soon to be appearance before the Banking Committee. Thank you very much, sir.

We meet again at 3.00 o'clock this afternoon to hear Mr. A. D. Holmes, Director, Prices Division, Dominion Bureau of Statistics, who will be discussing the Consumer Price Index, how it is made up, what is in it and what has happened to it.

The Committee adjourned until 3.00 p.m.

—Upon resuming at 3 p.m.

Co-Chairman Mr. BASFORD: The committee will please come to order.

This afternoon, gentlemen, we have as our witnesses Mr. A. D. Holmes, Director, Prices Division, Dominion Bureau of Statistics, and Mr. Grove A. Lane to give us an analysis of the consumer price index. Mr. Holmes' statement has been distributed, so I will now call upon him.

Mr. A. D. Holmes, Director, Prices Division, Dominion Bureau of Statistics: Mr. Chairman and members of the committee, we have a prepared statement which none of you has seen in advance. With your permission I propose to read this as being the most effective way of telling you about the consumer price index.

The Consumer Price Index for Canada measures from month to month the effect of changing prices on the costs of purchasing a specified basket of consumer goods and services. A detailed description of the index including the methods of constructing it with its interpretation and limitations was published in March 1961 by D.B.S. in a report entitled *The Consumer Price Index for Canada* (1949=100), Revision Based on 1957 Expenditures, Catalogue Number 62-518. It is not the intention in this presentation to repeat the detail of the cited publication. Rather, we propose to answer three basic questions about the index which, in our experience, are uppermost in the minds of users and which provide a basic understanding of the index and its behaviour. We also propose to describe the movements of the index during the past four or five years, with particular reference to major commodity and service groups comprising the index and the detail of price movement within the food index. Diagrams and charts are provided as aids for these purposes, and you have before you a set of these charts.

(*See Appendix "8"*)

The three basic questions about the index are:

(1) What is it?

(2) What is the composition of it?

(3) What does it do?

The Consumer Price Index is a measurement of changing retail prices of selected goods and services of specified quality and quantity over time. The goods and services included in the measurement are those purchased by urban families living in Canadian cities of over 30,000 population, which comprised a market "basket" in 1957. Each commodity or service in this basket is priced from month to month and the current price is expressed as a percentage of the price in a selected reference year. In Canada, 1949 was picked for this purpose.

These percentages, or price relatives, are added together in a way that reflects the relative importance of each item in some base period. Beginning in 1961, the time of the last revision, the index has been based on the urban family expenditure pattern of 1957. Prior to 1961, the expenditure pattern of 1947-48 served as a basis for pooling the percentages.

When reference is made to the Consumer Price Index, people have in mind either one of the two ways that D.B.S. publishes official retail price indexes. The first, and most important, is the Canada Index released monthly under the title *Price Movements*. This gives an index figure for all consumer items for Canada—in September it was 145.1—as well as figures for the seven components.

The second reference relates to indexes for regional cities, released about the 13th of the month following pricing, in the D.B.S. *Daily Bulletin*. These index figures relate to what we call "regional cities" including St. John's, Halifax, Saint John, Montreal, Ottawa, Toronto, Winnipeg, Regina-Saskatoon, Calgary-Edmonton and Vancouver. For purposes of this paper we shall simply recognize the existence of city indexes and shall concentrate on the Consumer Price Index for Canada.

At this point, we draw your attention to the pie charts to understand more fully the grouping of items in the index.

If I may depart from the prepared text at this stage, looking at the large circle or pie in the first chart you will notice in the upper left-hand corner that

food comprises 26.7 per cent of the content in the index. In the upper right-hand corner you will see that housing comprises 32.2 per cent and together with the other items these comprise what we call the seven major components of the index. Down below you will notice a wedge marked "Transportation" which in the upper circle is valued at 12 per cent. The components of transportation are marked as travel, local transportation, and automobile operation, each with its respective value making this total of 12 per cent. Similarly, there are wedges shown for Recreation and Reading, and for Tobacco and Alcohol. In the second chart the sub-components of the other major components are also shown.

What is the composition of the Consumer Price Index? The Consumer Price Index begins with an urban family expenditure survey. Families who meet certain qualifying characteristics are interviewed for the purpose of recording the way in which they spend their incomes. They are referred to as the "target" group.

Three characteristics were used in 1957 to identify a sample of about 2,000 families that were included in the target group, and this sample is used to represent the target group.

(1) They lived in urban centres of 30,000 or more population.

(2) The families ranged in size from two adults to two adults with four children.

(3) The families had annual incomes between $2,500 and $7,000 in 1957.

We often refer to this target group as the average-size, average-income group.

The results tabulated from the 1957 Family Expenditure Survey provided a framework for the index. All the commodities and services purchased by this target group, which could be priced, were included in the basket. We made no judgments about necessities and luxuries. We did not delete anything from any moral point of view. If the target group bought it and we could price it, we included it. However, as a practical matter, it would not be possible within the resources available to price every individual item for which expenditure has been reported. Indeed, it is not essential to do so. Thus, price movements of numerous minor items are represented by those prices for other closely related and more important items. Their effect, therefore, is taken into account. This is the well known technique of using a sample to represent the larger group.

Currently we price about 300 different goods and services throughout major urban cities in Canada for the Consumer Price Index. To price these items, about 460 specifications have been established. The purpose of these detailed specifications is to price representative qualities in the quantities that would be purchased by the "target" group.

Reference to "quality" of items being priced should be emphasized at this point. The content of the basket remains given or fixed until a major revision is made based upon an up-to-date family expenditure survey. However, as manufacturing firms tend to utilize available know-how, they continuously change the quality or characteristics of a particular product offered for sale. Frequently we find quality degradation or deterioration as well as quality improvement of a given line or style from year to year. We attempt to make the best judgment evaluation, drawing on the knowledge of technical experts in the particular industry plus our independent assessment. Hence, the quality of an item being priced is under our continuous scrutiny because "true" price changes may be camouflaged by variation in quality through time.

To continue our brief description of the more significant features of price collecting, a carefully selected judgment sample of outlets—firms or stores, if you will—selling goods and /or services has been taken in 33 cities. Outlets were selected, bearing in mind where our target group was most likely to shop. This selection is reviewed continuously. The sample also varies from group to group,

commodity group or service group. The most notable exceptions are clothing, home furnishings and automobiles. For the latter, prices are taken in eight cities—that is, for automobiles—while 10 cities are included for clothing and home furnishing. These departures from the norm stem from severe budget and staff restraints on the pricing program, in conjunction with the difficulty of pricing items of this nature through time.

The number of quotations and pricing frequency for any given item varies, depending on its nature, and the weight or relative importance of it in the index. For example, an extensive food sample is carried out on a monthly basis, encompassing all types of stores. On the other hand, very few newspapers need to be contacted to obtain a measure of the price movement in this case.

Outlets are revisited by trained pricing staff at regularly spaced intervals according to their pricing frequency: e.g., food, each month; clothing, each month; appliances, quarterly. All outlets are visited in the same sequence; that is to say, the stores visited on Thursday of the first week of the month will be visited on Thursday of the first week of the month for the next pricing.

In regard to frequency of pricing, however, the effect is to price items monthly. Whenever there is an indication that price movements have occurred, or may have taken place, we request a formal or special pricing.

Pricing begins about the 20th of each month and extends to the 14th of the next. Items priced must be regular merchandise—as opposed to those manufactured solely for "sale" purposes—and there must be a reasonable quantity of the item for sale. The price for any good or service must be the price that any member of our target group would have paid to purchase it that day.

When prices have been recorded, the records are forwarded to Ottawa for editing in terms of the detailed specification and for tabulation. In computing the Canada Index, several steps are involved, and these are outlined in the reference paper. Suffice it to recognize that the relative importance of population is taken into account in deriving both the Canada weighting pattern and the average prices or average price relatives at the Canada level.

One other aspect of the construction of the Canada Index that requires special note is the treatment of seasonally variable foods. This is a unique feature of the Canadian Consumer Price Index and it involves a complex calculating procedure. Without delving into details, the essential element in calculating the seasonal food basket is to give recognition to the variation in the supplies of seasonal foods and also recognition of the fact that consumers readily shift their expenditures on individual items but purchase each month an equivalent total of seasonal items taken together. Thus, quantity weights were calculated for each month and these are used to estimate the contribution of price change in each corresponding month.

What does the Consumer Price Index do? In explaining what the Consumer Price Index is intended to do, it has become traditional to determine what it does not do, thereby providing a clue as to its intended purpose. This has become necessary because, although the Consumer Price Index is one of the best known indexes, it is also the most frequently misunderstood and misused.

Contrary to popular thought, it is not a measure of the cost of living. This misconception arose in its early stages when it bore that name. In 1949, the name was changed to its present one, but the old misnomer has remained. For the Consumer Price Index to be classed as a cost-of-living index, it would have to take into account a host of non-price factors which influence living costs, such as changes in income taxes, periodic changes in income, changes in size of families, and changes in quantities and qualities of commodities which families buy as they move from one level of living to another.

Let us now depart from tradition and attempt to state in positive terms what the Consumer Price Index does. It measures changes in the general level

of retail prices, albeit for a selected group of the population and the prices that are paid by that group. As such, it is an indicator of inflationary—or deflationary—tendencies in retail markets. One of the most popular uses of the Consumer Price Index along this line is to measure the purchasing power of the consumer dollar. An application of this in concrete terms is when wage—or other—contracts are escalated or negotiated using the Consumer Price Index as a basis for the appropriate clauses or in the negotiation argument.

In summary then, the Consumer Price Index measures movement in retail prices of an equivalent basket of consumer goods and services through time. By its very nature and design it is a complex economic tool designed to indicate the state of health of the economy—one aspect of it. Often it is misunderstood and thereby misused. Also, more precision is attributed to the measurement than can be justified on either theoretical or practical grounds. Nevertheless, it is a relatively sensitive index which has a variety of legitimate uses.

Mr. Chairman, in our discussion of the behaviour of retail prices in recent years we shall use certain charts which, with your permission, Mr. Lane will project on the screen and point out the salient features of them, and the particular movements that may be of interest to the committee.

Co-Chairman Mr. BASFORD: Yes, I think that would be a proper way of proceeding.

Mr. Grove A. Lane, Chief, Retail Prices Section, Dominion Bureau of Statistics: I shall follow these in the same sequence as they are in the copies that have been handed out. We have already talked about the pie chart, and the wedges related thereto. The third chart is entitled "All-items and Main Components of the Consumer Price Index". The significant thing, as is noted on page 7 of the text in paragraph 2, is in the movements from about the beginning of 1965 through to the current month. I will attempt to point them out here. You will notice on these charts these little tails in this period. All are relatively sharp upturns. As a matter of fact, if we were to fit a curve on these we would see it would fit very nicely.

In particular, I want to draw your attention to this point beside the solid line, which is the "All-items" index, and just below it—this one with the big high humps is the movement for the food component. At this point it actually crosses the "All-items" and rises above it very slightly up here. You can see that it is going up, and that it has dropped off in the month of September.

The next series of charts are bar graphs. I do not think they will show up too well on the screen. Notice the dotted line, which is the line drawn through the middle and which represents the current level of the index. This is for the month of July, the latest month for which our regular publication *Prices and Prices Indexes* has been released. That is the blue publication, which is published monthly. The next one will not be out probably for another two weeks.

In the July period this bar chart shows those items which have tended to force the index up, and those which have had some offsetting effect. In this chart we show only the main groups and the subgroups—not the detailed items. On this first page the most important, I think, is the "Home Ownership" bar. That is this one right here (point on the chart) in the middle of the page. It has exerted the greatest influence, on this page.

The second page of this chart, which is the one I am projecting now, you can see that "Local Transportation" has almost gone to the outside edge of the page. Another one that has been very important is the "Services" component, and just above it is your "Prepaid Medical Care".

Co-Chairman Senator CROLL: What is contained in "Services"? Can you explain some of these? "Local Transportation" we can understand, but—

Mr. LANE: Here I refer you back to the pie chart which brings out some of the more detailed things, but in the "Service" component of "Housing," for example, we include such things as telephones, electricity and heat. In the "Services" are included such things as dry cleaning service, hair cuts, and hairdressing; that type of thing.

Co-Chairman Senator CROLL: "Local Transportation" is just streetcar—

Mr. LANE: Streetcars, buses and taxis. Doctors are noted as a separate subgroup, as you will notice under "Health and Personal Care".

Mr. SMITH: Where is hospital care?

Mr. LANE: That comes under "Prepaid Medical Care". Of course, when the hospital services plan was put on a national basis it was deleted from the index, because it is no longer priced as a separate item. It is supported through the taxes that are generally assessed under the Income Tax Act and other forms of taxation.

Mr. SMITH: What about the part of it that includes the premiums we pay?

Mr. LANE: We do not include it because it sort of affects the group as a whole rather than having separate or individual geographic area effects. It affects the nation as a whole, and the part you pay is only a part of the total cost. This is not a cost-of-living index. This is a consumer prices index. This is the point we tried to emphasize in the text.

Co-Chairman Senator CROLL: Mr. Lane, originally we thought that our trouble was twofold—food and services. Now, your services show quite an increase and, of course, transportation was part of the services, but do the food products that you have include the basket?

Mr. LANE: I am sorry, I did not quite—

Co-Chairman Senator CROLL: Do they include the food basket?

Mr. LANE: The food includes the food basket, yes. If you refer to the wedges on the second page you will see it denotes the things that are included. There are seasonal items, restaurant meals, dairy products, cereal products, and miscellaneous groceries. We will be coming to examples of the seasonal items in the next chart.

Co-Chairman Senator CROLL: Go ahead.

Mr. LANE: Perhaps I can show that.

Mr. MCCUTCHEON: I wonder if I could refer to that first block chart first?

Mr. LANE: Yes.

Mr. MCCUTCHEON: There are two items there that appear to be under 100. Is this correct? Am I reading this correctly in saying that "Appliances" and "Eggs" are under 100?

Mr. LANE: Yes. This is relative to the base, as it says, of 1949 equalling 100. Relative to 1949 eggs stood at roughly 90 per cent and appliances stood at roughly 80 per cent.

The next chart refers to the food index which the Co-chairman, Senator Croll, has just raised. Again here I would just like to point out that we have shown the major grouping. "Total Meats, Fish and Poultry" is the broken line with the long dashes, and that is the one that is in this position along here (pointing to the chart). It starts at around 128 at January of 1963, and rises to 143 as of September.

The second group is "Vegetables" which is quite volatile, and is shown by the short broken line beginning at about 138. It rises together with the "Total Fruit" group, but then departs and does not rise quite as much as fruits, and

shows quite violent seasonal fluctuations, reaching a peak in 1965 of nearly 200. Again, this is basis 1949 equals 100.

Then the third group, "Fruit" which I have already mentioned, tends to lie at the top of the chart for 1963-64, and then drops down below vegetables, and ends up at about 155 in the month of September.

The next group, "Total fats and oils" down at the bottom of the chart, begins at about 94 and rises to about 108.

The last one to be denoted on this chart is the dotted line (Dairy Products) running along just above the solid line, the "Total Food Index".

The total food index is precisely the same line as the one we saw on the previous chart labelled "Food". If you will recall, in that chart that line crossed over the "All-items Index" in about January, 1966. That is at about the point I am indicating, which sort of positions it relative to the "All-items Index" so far as this chart is concerned.

Again may I draw to your attention the points of inflection. I will attempt an experiment by placing the ruler on, for example, meats. During this period, (January, 1963 to April, 1965), the ruler lies about level at 120 to about April 1965. Then you see what happens—prices rise very rapidly from that point on.

I should remark, for those who are not familiar with graphs, that this graph is drawn on a semi-log basis, which means that you can read the slopes at any position anywhere on the chart directly; they are comparable. This is not true with ordinary graph paper.

Another point with respect to this chart is that the "Total Vegetables" tend to increase throughout the whole period. They have a steady rising slope. In contrast, "Fruit" tends to be flat, even slightly declining, although I am inclined to think flat, with no tendencies upward or downward, but, if anything, slightly downward, though not particularly meaningful.

On the other hand, the "Fats and Oils" again show this characteristic upturn in the last year to a year and a half, as was true for meats.

The next two charts look at some of these individual items at the time (1964 to date) of these group movements.

First, let me take the one dealing with meat, which I think is the sequence of your charts.

I think the most impressive thing in this chart is the way in which bacon has behaved. Bacon began at below 110 in the beginning of 1964 and shot up to practically the top of the chart in the current period, and you can see that beginning at about April it began to rise, and in the two month period rose from approximately, let us say, 115 up to about 155.

There was also a relatively sharp rise in pork rib chops, which rose from approximately 127 and actually went right up to the top of the chart in March and April of this current year, 1966, then dropped back down to around 146 in about April, and then gradually began to creep up again. In September it stood at approximately 162.

The solid line which runs from approximately 140 represents sirloin steak, and it has tended to stay on top of the heap, and at this point (indicating August, 1966) went up to about 173, then dropped back down in September to just below 170.

I might also draw your attention to both the low priced beef cuts and the high priced beef cuts. These are sirloin representing the high priced beef cuts and the low priced beef cuts, such as blade roast and hamburg, which have tended to exhibit the same kind of movement. You can see this in the parallel movement (pointing to the chart on the screen)—hamburg being represented by my thumb, and the high priced steak by my index finger. So there is no

evidence here to suggest that the higher priced cuts were preferred, and therefore no greater demand pressure than for the low priced cuts. But this was not true for bacon.

Senator DESCHATELETS: Why do you say it is not true of bacon?

Mr. LANE: Bacon rose from a relatively low level to almost the top of heap. It did not move parallel with beef at all. Nor did pork rib chops, which tended to shift upward, too, and re-position itself in the chart.

Co-Chairman Senator CROLL: When these reports came in so startlingly, did you ever question them and say, "Are you fellows right, or were you drinking that day?"

Mr. LANE: Yes. As a matter of fact, in the paper we did touch this matter very lightly. We send trained people, and not only do we spend a good deal of our time training our pricing agents, but we also run a "quality check." Unknown to the pricing agents we will enter a store and price some time after them on the same day. Then we will compare the presumably more expert person, pricing after them, and if there are any differences they have to be able to reconcile these differences. If they cannot, and there are too many errors of this character, then we discharge that enumerator and find a replacement. We do run a quality check on these people in order to have a constant control on the quality of their performance. I might add that this no easy task, because we are pricing in 33 cities.

The next chart relates mainly to vegetables, and we included it in the group to illustrate a rather sharp contrast in the movement of vegetables compared to meat items. Although in the case of vegetables, as is also true with fruit, there is a very marked seasonal movement which is clearly illustrated by these great big peaks in the middle of the year for potatoes and turnips and carrots, which usually does precede the fall harvest. However, overall, the trend has been very, very modest, almost absent. There was a slight trend for potatoes, turnips and carrots but virtually no trend whatsoever for tomatoes, lettuce and celery. I may say that when we picked these we took them because they showed the greatest variability and the greatest interest. This directly contrasts with the meat group, which shows that marked up-trend.

The next two charts are bar charts. These are part of our current regular publication, released for the month of April. In the first case we had a release showing the comparison of the change from April 1964 to April 1965. In the second one it is from April 1965 to April 1966. I did not realize initially two things; (1) that the scales were different between the two charts and, (2), that the order of commodities varied. We tried an experiment, to superimpose the 1964-65 movement on the 1965-66 movement. That is what we have tried to show on this chart. (The chart was projected on the screen and the sequence of items follows the bar graph for 1965-66).

I apologize to those in the back as it may be difficult to read but if members have trouble they may move closer. The dark or black areas represent the 1964-65 changes for the corresponding items. The thing which is most impressive is the case of meats. You will remember that we talked about meats showing a very marked up-trend. This reflects it again at the individual item level. The first one, sirloin steak, in the year 1964-65 the change was about 1 to 1 1/2 per cent; whereas in 1965-66 it is something in the order of 17 per cent. For round steak there was actually a decrease in 1964-65, compared to about a 15 per cent increase (in 1965-66).

As you move down, you look at rib chops and see that in 1964-65 it increased about 7 per cent, whereas in 1965-66 it was close to 20 per cent.

The same is true for all the subsequent pork cuts, e.g., pork shoulder roast, where the change is even more impressive. Similarly for bacon, you will recall

that bacon moved from near the bottom of the chart (reference to line graph) to near the top of the chart. This again reflects it—over a 20 per cent increase in price.

If you look at chicken, it also showed some increase in the period.

When we get to oranges and apples, in 1964-65 they actually showed some increase in prices, whereas in 1965-66 they showed decreases. That is, the price in April 1966 was approximately 12 per cent lower for oranges than it was in April of 1965.

Towards the bottom of the chart (first page), when we look at canned pears and peaches, these things showed rather marked increases in the recent year, compared to their movement a year earlier.

Sugar does not show up too well on the chart. You will recall that sugar prices were very high in 1964. In April 1965 they were away below, something in the order of 35 per cent; whereas from April 1965 to April 1966 the decrease was very, very small, something in the order of about 3 per cent.

The second part (page 2) of this chart covers some of the other commodities. Ane of those to which I would draw your attention is right at the top—potatoes, which went right to the outer margin. That is, in 1964-65 potatoes increased markedly in price, whereas in 1965-66 they actually decreased something in the order of about 12 per cent.

Onions and fresh tomatoes showed similar relationship, not quite as impressive (reference to magnitude of changes).

Carrots, turnips and cabbage showed some increase in April 1964-65 and showed greater increases from April 1965-66.

However, the intermediate items did not change very much and exert very little influence on the index in one direction or the other, until you get down to eggs. Here, we see that in April 1966 eggs were nearly 30 per cent higher than they were in April 1965. Whereas April 1965 compared to April 1964, they were practically the same, or, in other words, this little black line is very tiny.

Other miscellaneous commodities showed very little influence on the index.

Co-Chairman Senator CROLL: Do you give detergent and baby food here? Would not they be part of the basket?

Mr. LANE: Yes, they are part of the basket. We did not pick those particular items out. I am sorry, yes we did. We have infants' food on this page (second page—14th bar from the top). It is right there (pointing of the screen). In April 1966 infants' food was about 10 per cent higher than it was in April 1965. In contrast, April 1965 was about 4 per cent below the price in April 1964.

Co-Chairman Senator CROLL: You said 10 per cent higher. What would that mean on your index, in numbers?

Mr. LANE: I cannot tell you that without going into very detailed calculations. As to infants' food, I can tell you in a minute what the weight of it is. Infants' food has a weight of .3, that is, three one-thousandths of an index point.

Co-Chairman Senator CROLL: Infants' food in figures provided by you indicated the index in 1965 at 138.2 and in August 1966 at 155.4.

Mr. LANE: That is in August of this year, 1966?

Co-Chairman Senator CROLL: What does that mean in percentage to me? Can you relate it?

Mr. LANE: That change would get a weight in the total index of .3. It would not exert very much influence, not in the aggregate, that is, in the total.

Co-Chairman Senator CROLL: On the total index?

Mr. LANE: Out of the total for food, food gets 26.7 per cent of the total weight. This represents, therefore, 3/267ths, pretty tiny even for food. Point 3 really means three one-thousandths of the total.

Co-Chairman Senator CROLL: What would it mean in dollars and cents, roughly?

Mr. LANE: You see, this is the difficulty of looking at a "relative", when you get a movement such as 138 to 155.

Co-Chairman Senator CROLL: Yes.

Mr. LANE: Supposing that the price for a jar of infants' food was 12¢ and then went up to 15¢.

Co-Chairman Senator CROLL: Yes?

Mr. LANE: That is 3/12 or a 25 per cent increase.

Co-Chairman Senator CROLL: Yes.

Mr. LANE: A 25 per cent increase would move the "relative", if you start from 138, up to more than 155.

Co-Chairman Senator CROLL: A 25 per cent increase would move it up to more than 155?

Mr. LANE: It would put the relative up to about 170 something, nearly to 180. So a movement from 138 to 155 might mean something in the order of 2¢ on a unit.

Co-Chairman Senator CROLL: I see, yes.

Mr. LANE: I am not sure what infants' food is selling for today in the store, but it would be something in the order of 12 or 15¢.

Dr. JAMES: They're selling 2 for 39¢.

Mr. LANE: Is that for the large or for the small jar?

Dr. JAMES: That is the standard baby food jar.

Mr. CLANCY: What does this include? Does it include special preparations like S.M.A. and so on?

Mr. LANE: We do not price special preparations.

Senator O'LEARY: As for soap and detergents. as Senator Croll mentioned, the only place they would be covered is in the second chart under housing supplies. Is that right? Do you call those housing supplies?

Mr. LANE: Yes, that is where they would show up. They come into the household supplies. They come under supplies, and soap flakes get a weight of .1, that is one one-thousandth, and detergents, which have become much more important, get a weight of .4 in the Canada Index, which is four one-thousandths.

Mr. MCCUTCHEON: Might I just ask this: we are after the culprit that is causing the increase in the cost of living, and, if we can refer back to the chart which is headed "Consumer Price Indexes Price Movements for Total Food Index and Selected Components", by process of elimination the black line that you have described is the total foods which have gone up.

Co-Chairman Senator CROLL: Wait a minute. I am not on your chart. What chart are you referring to?

Mr. LANE: Is this the chart to which you referred, Mr. McCutcheon, Consumer Price Indexes Price Movements for Total Food Index and Selected Components? (Placing the chart on the screen).

Mr. MCCUTCHEON: Yes, that is the one. Now, there is a black line which you described as the composite of the total foods. Would it be a fair assumption for our Committee to make that since the total of meat, fish and poultry, fats and oils, including butter, are well below the mean that we could exclude them from our search for the guilty product?

Mr. LANE: I would say no, because you must remember that at the top of this chart it says that the basis is 1949 equals 100. This establishes the level in the chart, and the fact that "fats and oils, including butter," lie below the 100 line means only that that is where it is positioned relative to 1949 equals 100. But the fact that they have moved up, that upward movement (pointing to 1965 and 1966), has helped to contribute to the upward movement in the total food index.

Mr. MCCUTCHEON: This is true, but at no place has it crossed the heavy line.

Mr. LANE: But, if you look at the slopes, if I may lay my ruler on the chart,—and this is why I mentioned the slope earlier in my remarks—if you lay the ruler on there (Fats and oils—1965 and 1966), that is approximately the slope for that one, and it is a steeper slope than the slope for this (pointing to "Total Food").

Mr. URIE: It has been increasing at a faster rate.

Mr. LANE: That means that that has been increasing at a faster rate, that is correct. The same is true for meat. Remember that I said, in this period (pointing to 1963-64), it was almost flat, but in this period (pointing to 1965-66), look at the slope. It is very, very steep.

Co-Chairman Senator CROLL: We were told yesterday that the stability of butter was outstanding, really something we could be proud of because the Government had taken a hand in it, and there had been stability in that product.

Mr. URIE: That chart includes fats and oils which may have gone up more quickly than butter. Is that correct?

Mr. LANE: This is correct, but, when they removed the subsidy butter took quite a jump during this period we are concerned with, which partly contributes to this upward movement here (pointing to 1966).

Senator O'LEARY (*Antigonish-Guysborough*): There was an increase of 7¢ a pound.

Mr. LANE: Yes.

Co-Chairman Mr. BASFORD: Go ahead, Mr. Lane.

Mr. LANE: Well, does that answer your question, Mr. McCutcheon?

Mr. MCCUTCHEON: Hardly.

Mr. LANE: This is why, if I may refer you back to the main chart, the one called "All Items and Main Components," I mentioned, when we were talking about it, that in this period from about mid-1965 to date nearly everyone of these main components has a little upward tail. My conclusion from that is that all of these things have been contributing to the recent upsurge in the Consumer Price Index.

However, food has moved a little more rapidly than any others. In other words, the slope (rate of increase) of the food component, which actually crossed the "All Items" has exerted a little stronger influence on the total, the CPI, than the other components. However, they have all contributed to the rise. They all have those distinctive little tails.

Mr. SMITH: If the supply became abundant, would food not be more sensitive to a decline than housing and rents, for instance?

Mr. LANE: I think this is the essence of what we tried to picture here in all of these charts. Food is very volatile, particularly in seasonal movements. However—and here I depart from my expertise as a price measurer and rather draw on my general reading as an economist—the thing that has tended to press food prices upward has been population growth, predominantly. There is really a race between technology and population, and many economists have written quite widely on this topic.

Mr. SMITH: In other words, we are getting into a short supply of food.

Mr. LANE: There is pressure on the food supply, yes.

Co-Chairman Senator CROLL: Our population has not accelerated that quickly. It has been going up mildly. There has been nothing unusual about it in the last two, three or four years.

Mr. McCUTCHEON: Just reading that chart—

Co-Chairman Mr. BASFORD: Order, please, Mr. McCutcheon. I wonder if you would answer Senator Croll's question?

Mr. LANE: One of the things that have influenced our Canadian prices has been relative short supply of certain food items in the United States, and in this respect beef and pork are exported.

As you know, moreover, we tend to import quite a number of specialized fruits and vegetables. Some of the seasonal vegetables are in short supply in the winter periods, and a short crop in the United States will cause the prices here to go up. I might mention in this connection that in the Consumer Price Index we include imports. We include them, if they are on the shelf in the store; if they are volume sellers, we include them. We are trying to price the volume sellers, and when it comes to imported foods, if they are the volume sellers of the day when we are in the stores pricing, we price them. In other words, this index includes imports.

Co-Chairman Mr. BASFORD: Now, Mr. McCutcheon.

Mr. McCUTCHEON: On this same chart, as I read it, food travelled from 1957 nicely below all averages on "All items" until about January 1966, and then it seems to have taken an inordinate swing above. Is there any suspicion of manipulation at that particular time?

Mr. LANE: I am not in a position to indicate that I have a suspicion there was manipulation, but what I have tried to do or to illustrate with the subsequent charts and, in particular, with the one dealing with meat products, is that bacon and other pork products exerted a very, very sharp increase from about April 1965, which is about the time that you have noted here. Actually this would come just about at the bottom of the movement for the food item or the food component index (pointing) to October 1965. From that point in it is very, very steep, and when we look at the individual items, the thing we see is bacon, in particular, but all meat items moving up rather rapidly. I think this was mainly, and I underline that word, because bacon was in short supply as well as other pork cuts and beef. And this was introduced because of the short supply in the United States for the large part.

Co-Chairman Mr. BASFORD: Senator O'Leary.

Senator O'LEARY *(Antigonish-Guysborough)*: On page 4 of your text in the second last paragraph you stated "Whenever there is an indication that price movements have occurred, or may have taken place, we request a formal pricing." Just what is the action taken in this formal pricing?

Mr. HOLMES: Let us take appliances, for example. These we price quarterly. We watch the newspapers and we have people in the field as pricing officers. If word comes back to us from the field or if we have seen in the newspapers the likelihood of change in the price of appliances we will not wait for the next quarter. We will introduce a pricing in that month to pick up the possible price change when it occurs rather than later when we are doing the regular pricing.

Senator O'LEARY *(Antigonish-Guysborough)*: In effect it is not your concern that there is any abuse here. You would not be reporting to anybody.

Mr. HOLMES: No, we are dealing with "what is" rather than with "what ought to be". We are not attempting to investigate whether the price change is justified or otherwise. We decided to price appliances quarterly, because the

prices of appliances do not change that often. We can spend our money on pricing in better ways than by pricing appliances every month. But when our field staff are watching these things, although not reporting prices, when they become aware that a price change has occurred, we will immediately insert a special pricing to catch that when it occurs. There is no thought here that there should not be a price change at that time. On the basis of our experience, we have only said that prices do not change enough to warrant monthly pricing, so we price every quarter. Where we notice price changing more frequently we will put on an extra pricing on that particular item. That is the only meaning for that sentence.

Senator O'LEARY (*Antigonish-Guysborough)*: Then again in the last paragraph you say "Items priced must be regular merchandise as opposed to those manufactured solely for 'sale' purposes—". In other words you are not concerned with loss leaders or weekend specials. Things of that kind you do not consider at all?

Mr. HOLMES: If a loss leader is being offered to the public in what we consider is a volume that anybody can go in that day and buy it, we would not say that this was a specially manufactured loss leader. As long as it meets our specification of the item we wish to price, we would price it if it is available in volume even though it may be sold at a specially reduced price, whether it be a loss leader or whatever the merchandiser wishes to call it. But goods that are specially manufactured do not meet our specifications in pricing. We are very cautious of the change in quality. Perhaps Mr. Lane has a good example of this which has occurred in the recent past where we have not priced.

Mr. LANE: A good example is that of chesterfield suites that are frequently in some of the larger department stores, which run a weekend special. They will clear out their total line of "regular" merchandise and bring in these specially manufactured chesterfield suites and put them on as a "come-on" to get people into the store. These are specially manufactured things which we would not price.

The problem here, I might comment, is not that this merchandise may not be good merchandise, but it is substandard in a sense that we cannot compare the quality of this merchandise relative to the quality of regular merchandise, and quality, of course, is a very critical factor in pricing. If we want to follow quality through time, the only way we can do this is to follow regularly manufactured lines where we have some assurance that the manufacturing firms are putting into it a given level of quality.

Senator O'LEARY (*Antigonish-Guysborough*): You are concerned with the price offered by the retailer on standard well-known brands.

Mr. HOLMES: We would take those if they existed on the day we were in pricing—we would take the clearance prices. We would not take the price if it was simply a special brought in for a particular time.

Co-Chairman Mr. BASFORD: Senator Carter.

Senator CARTER: You have a sample group of 2,000 families, and that group ranges in income from $2,500 to $7,000. Is that group weighted one way or the other towards any particular income bracket? How do you sort these out to get a fair sample of each?

Mr. HOLMES: We use the labour force survey, and when families have been in that survey for a certain time they are rotated out of the labour force survey and we pick them up to use for a family expenditure survey. The sample is a probability designed sample, but we exclude families with incomes below the lower limit of $2,500 and those above the upper limit of $7,000. This is partly a screening process in the office, and it is a screening process in the field because we do ask families their income in order to classify them. But it is a probability

sample—a scientifically designed sample of families. The size of the sample is 2,000 and we use this to develop what we call the weighting diagram for the items in the index, that is the commodities and services we should include and the weight we should attach to each.

Mr. SMITH: Supplementary to that question of Senator Carter, does the consumer price index reflect in part an improvement in the general standard of living of families within that group?

Mr. HOLMES: We do not intend it to do so. In so far as we can control this we would not allow the index to reflect an improvement in the standard of living of the population group to which it relates—this is the urban population of average income and average size.

Mr. SMITH: Your families are still judged to be living, presumably, at the same level they were in 1949?

Mr. HOLMES: This we hope is the case. This is what, in effect, the fixed basket does. To put it another way, the index answers the question: How much more or less will it cost now to buy the same basket of goods that was bought by a population group in a specified past time?

Mr. LANE: Not 1949; 1957.

Mr. HOLMES: Yes, the basket is 1957.

Senator CARTER: You send out questionnaires?

Mr. HOLMES: These are interview surveys. We have enumerators going out on rather lengthy interviews.

Senator CARTER: When you get all this data in your central office where it is correlated, is a comparison made between one group and another group and the price paid by one group and the price paid by another group?

Mr. HOLMES: The family expenditure survey yields us the value or dollar expenditure on the specific items of commodities and services which we have listed in about a 30-page questionnaire specifying the items. We get the dollar values only and these are used to arrive at expenditure per family among all items so we can then derive a total expenditure, and from this calculate the percentage of the local expenditure that is reflected by a particular item or group of items.

Senator CARTER: The fact that the person who goes into the $7,000 family and asks if the housewife had bought tomatoes that day or bread or whatever it is or, take meat—does your survey reflect the better-off person, the $7,000 one, may be buying a much better cut of meat than the one in the $2,500 bracket?

Mr. HOLMES: It would, in the sense we are asking for the dollar expenditure but we are not asking for the value per unit or price they pay. We do not ask the quality or price, but we say, "How much did you buy? How many dollars did you spend on meat?" This is for detail. For the detail of food we run a survey throughout the year relating to small periods of time. It is what we call a diary type survey, where the people record day by day what they spend for particular items, say, for particular cuts of meat. All we are asking them to record is the number of dollars that they have spent for this.

Senator CARTER: Over what period, that day, or that week?

Mr. HOLMES: It could be that day, but if they are doing it that day they would accumulate it for the week and we would get the dollars spent for the week.

Mr. SCOTT (*Danforth*): Your index is much more limited than most of us thought, I gather. In your judgment, would there by any advantage in designing an index that would represent the actual cost of living, taking in the other components?

Mr. HOLMES: It would not be a price index. For example, if we include income tax, which presumably is a cost to the individual family for which they get a return in services of some sort, we could not attach a price to it, and the intent of this was to produce a price index and not a cost index. Also if the families in the population are gradually enjoying an improving standard of living, the cost of that higher standard of living is part of the cost of living.

Mr. SCOTT (*Danforth*): What I was getting at, perhaps unclearly, is that what you are really giving us in these figures is the cost of food.

Mr. HOLMES: As far as the detail is concerned, but if you look at the chart which is the first one following the pie chart with the title, "All items and main components of the consumer price index," the heavy black line that runs through the centre of that chart called "All-items" is the consumer price index that reflects the movement of prices of everything in the index, which is much more than just food.

Co-Chairman Mr. BASFORD: Mr. Smith?

Mr. SMITH: My question was only supplementary to Senator Carter, thank you.

Mr. JOYAL: You say the weighting diagram is as of 1957?

Mr. HOLMES: Yes.

Mr. JOYAL: This determines the relative weight which any price increase will have on the average price index. What do you do in order to arrive at this weighting basis, this pie, and do you think it would be time enough now to perhaps give us a new weighting?

Mr. HOLMES: In arriving at the weighting diagram, which is really the proportion or percentage of the total expenditure of our families from the survey, the proportion or percentage they spend on each of the items making up the total, this derives directly from the expenditure survey. Does that answer the first question?

Mr. JOYAL: I think I know what the weighting is, but the weighting is as of 1957?

Mr. HOLMES: Yes.

Mr. JOYAL: Do you think there would have been sufficient changes in society—for example, I look at the item on clothing which is 11.3 per cent, and at the modern trend of wearing less and less clothes, so perhaps today the weight to be attached to clothing would have been reduced, I do not know.

Mr. HOLMES: Our experience in the past has been that the changes in the expenditure patterns have not even over long periods resulted in indexes that are significantly different. But this does not guarantee that in a future time such changes in patterns are not that significant. However, we do have patterns here for 1962 having to do with food only, and the distribution of the family food dollar on dairy products, for example, in 1957 was 11.9 per cent, whereas in 1962 it was 11.5, a very small change. On eggs it was 3.5 in 1957 whereas in 1962 it was 3.0. Dairy products were 10 per cent in 1957 as opposed to 10.3 in 1962. These are relatively small changes. For them to be significant the price movement of all those items in which the relative importance was increasing, would all have to be moving in the same direction. Otherwise you would get compensating effects. You might have an increased expenditure in one item for which price charges were going in one direction and an increased expenditure in another item that for which price perhaps is moving the other way. The net result gives you an index not much different from the one you have now. However, we are conscious of this, and it is our intention to revise the index on the basis of the 1962 expenditure survey. There are problems of securing staff—I guess everyone has these problems—which have prevented us from doing this so far.

Co-Chairman Senator CROLL: You have provided the committee with a document called: "Table 10: Average Retail Prices for Canada, Selected Food Items"—that is the bread basket, is it not?

Mr. HOLMES: This is from our regular publication, yes.

Co-Chairman Senator CROLL: Anyway, the members of the committee will have that today. That gives us the retail prices in Canada. Now, you know our purpose. What else can you give us in this form that will be useful to us? Can you give us the wholesale prices?

Mr. HOLMES: Prices are a difficulty, because we may not be pricing the same specification at wholesale as we are pricing at retail. There can be differences between wholesale and retail, because they do not relate to the same quality of item. What we can do is provide indexes which will show the movement—we have shown you this today—of various cuts of meats. We can show you an index that combines the meats together. This would measure the change in prices paid for meat at retail over the period of years. We can provide the selling prices of meats of the meat packing and slaughtering industry.

Co-Chairman Senator CROLL: Selling prices to the retailer?

Mr. HOLMES: Yes.

Co-Chairman Senator CROLL: That is, prices of the packing industry while selling to the retailer?

Mr. HOLMES: Yes. We have an index which we call the selling prices index. These are the prices for which the products of industry sell, and one of the industries we have is the meat packing industry.

Co-Chairman Senator CROLL: But, you have other industries too?

Mr. HOLMES: Yes, we have other industries too.

Co-Chairman Senator CROLL: That we would be interested in?

Mr. HOLMES: I am not sure that there is as direct a relationship between products of producers and retailers in other industries.

Co-Chairman Senator CROLL: Well, suppose you leave it to the packing industry because we will have them before us next week.

Mr. HOLMES: Yes.

Co-Chairman Senator CROLL: What else can you help us with?

Mr. HOLMES: We also have indexes which show the movement of prices of hogs or steers at basic markets in Toronto and Montreal.

Co-Chairman Senator CROLL: We got that from the Department of Agriculture.

Mr. HOLMES: Yes.

Co-Chairman Senator CROLL: They have given us those figures with respect to both steers and hogs.

Mr. HOLMES: Well, let us follow the meats down, because meat is one of the areas which in the last two or three years has shown a more apparent rapid rise in price than has been the case in the past. This is evident in the selling prices of the meat packing industry. It is also evident in the prices at terminal markets for the raw materials, such as hogs and steers, which the packing industry uses. It is also evident, I believe, in the prices received by the farmers for their hogs and other live animals.

Co-Chairman Senator CROLL: You can prepare that for us?

Mr. HOLMES: I have a few charts which are done roughly, but which do show the price movement over the same time period are in the same direction at the retail level, at the industry level, i.e. at the processor level, at the farm level, and at the terminal market level. Now, it is quite clear that these have moved in similar directions—I have not converted these

figures to a common base, so I cannot say that if there were a 20 per cent rise at the retail level you would find a corresponding 20 per cent rise further back. It is this sort of thing which we would have to calculate. The rise in the price of the live animal to the processing industry is only one of that industry's costs, and we do not have information about the price movements of the other elements of costs that enter into the processing industry, for example. Nor do we have the figures that relate to all the costs that are faced by the retailer, but we do have some. We have indexes indicating the movement of different levels for some of the inputs of those industries and the outputs of those industries, and for the inputs of the retailer and his outputs, but we do not have the complete story. We just have not got a system of price statistics which is complete.

Co-Chairman Senator CROLL: Do the Americans do any better than we do?

Mr. HOLMES: I suspect they have much more detailed information at present than we do. I would think they have more than the Canadian system has available in some areas, and perhaps less in other areas. I would think in respect of food—and perhaps Mr. Lane has an idea on this—that they probably have more detailed information about food prices at various levels as it moves from the farm than we in Canada do, but I am only making a guess at this because I have never examined the full detail of their system.

Mr. LANE: Mr. Chairman, I might just comment on a comparison between Canada and the United States in this respect. Beginning in January, 1964 the United States Consumer Price Index was revised to include something just over 400 items. They had been pricing around 250 whereas we have been pricing something in the order of 300, and we continue to price about 300 items.

This is not a very good indicator, however, of the quality. I was recently in the United States, and I found that they were quite interested in many of the things that we were doing and the things that we had achieved in terms of our pricing program. I would say we would stack up fairly well.

Co-Chairman Mr. BASFORD: Have you those charts that you were mentioning to Senator Croll available?

Mr. HOLMES: I have only rough copies of them, and it is not possible to project them onto the screen. These were done in a hurry to give me a rough idea. For example, as far as prices received by the farmer for beef cattle are concerned, there is really not much of a trend. It is fairly flat. This is true of steers at Toronto, and it is true also of western steers at Winnipeg, although the Winnipeg steer index was moving up rapidly beginning about the early part of 1965.

Now, when we come to beef, fresh or frozen—these are the selling prices of the industry termed the meat packing and slaughtering industry—we find that there has been this same sort of movement since 1965 consistent with that for western steers, and not really inconsistent with that for eastern steers. I myself would like to see them put on a comparable base where the actual indexes can be looked at and compared.

Co-Chairman Mr. BASFORD: May I suggest that you talk to Dr. James after the meeting about that, and see what can be produced for us?

Mr. HOLMES: There are corresponding movements. This does not tell the whole story, but it does tell the story that the raw material used by the industry has increased in price over the period in which their selling prices and the retailers' prices have been going up.

Co-Chairman Mr. BASFORD: What do you have to do with those charts in order to—

Mr. HOLMES: I would like to put the charts on a comparable base and combine them. In some cases we do not have a combined index. For example, I

talked here about western steers versus eastern steers, whereas the index that we have for the packing industry is a Canada index.

Co-Chairman Senator CROLL: Supposing you do that, and give it to the Chairman.

Mr. HOLMES: Yes, these can be forwarded. These tell a little about the comparability of movement of the materials used by a processor and the output that he has and the retail price of the product which is sold at the retail level.

Senator DESCHATELETS: My question relates to the question put by Senator Croll. If we examine the chart for "Total Food," there is no doubt that in recent years retail prices have increased on all items of food mentioned. I think we are interested in pinpointing the reasons or the responsibility for this. If it is possible, I think we should have a chart showing prices at retail, wholesale and the producer's level, for the corresponding years. Then I think we would have an idea if the increase took place at all levels, or only at retail. The witness is not in a position to supply this information, because he is more or less confined to the retail level, but I think we should have such a chart.

Co-Chairman Mr. BASFORD: We have already discovered that such a table is somewhat hard to come by. We have but one table from the Department of Agriculture which shows that on one particular product. I take it that Mr. Holmes is going to supply us with what he can. My supplementary question to that is, is D.B.S. producing enough different types of indices, or do you feel it should be producing more?

Mr. HOLMES: We have plans for expansion, but as I indicated before, we are having difficulty finding staff. I think that is a common complaint. We are looking for staff with particular qualifications, such as statisticians, professional staff, and have not been able to get these, and so are not able to do the development work we would like to do.

Co-Chairman Mr. BASFORD: Have you finished, Senator Deschatelets?

Senator DESCHATELETS: Yes.

Mr. SALTSMAN: Mr. Chairman, I should like to bring to the committee's attention an article which appeared in the *Globe and Mail* this morning under the heading, "Union Group Surveys 10 Cities on Food Prices." One of the findings was that food in Ottawa was about 8 per cent higher at the retail level than in Toronto. I would like to direct this question to the gentlemen before us, to ask them if this is something that has shown up in their statistics and whether there is some reason for this to be so. If you wish, I can give you the article.

Mr. HOLMES: I have seen the article.

Mr. SALTSMAN: I would appreciate your comments on that.

Mr. HOLMES: We are not sure of the technical make-up of the basket. They have indicated that they used 26 items of the same specifications that the D.B.S. uses. This is a sub-sample, or some sort of a partial coverage involving 26 items.

Mr. LANE: We have 90.

Mr. HOLMES: Further, we attached weights to these items relating to their relative importance in the expenditure or spending habits of families. It is not clear from the newspaper article whether there is any weight attached to the 26 items and the corresponding prices that the group who produced the index had, so it is very difficult to comment; but our own comparison would not indicate that Ottawa was anywhere near that much more expensive than Toronto.

Mr. SALTSMAN: Does it not indicate that there is a difference between a city like Ottawa and a city like Toronto in prices?

Mr. HOLMES: We do publish in our monthly publication the figures for regional cities. For instance Winnipeg equals 100. We find Ottawa runs at 100 in relation to Winnipeg, and Toronto running at 99.

Co-Chairman Senator CROLL: How far down the list is Ottawa?

Mr. HOLMES: It is really right in the middle.

Co-Chairman Senator CROLL: Ottawa has always been notorious for low cost living, because of Civil Service wages, and prices have never been so high in Ottawa.

Mr. HOLMES: I do not know what the figure is for 1966.

Mr. LANE: One per cent higher than Toronto.

Mr. HOLMES: It is very difficult to comment on these special studies without access to all the technical information as to how it is constructed.

Mr. SALTSMAN: In this article they have taken specific items according to cities. For instance: one pound first grade butter; one dozen grade A large eggs; one pound shortening; a ten-pound bag of Ontario potatoes; Ontario carrots; No. 1 Canada onions, and so on. They have used their own criteria, I presume?

Mr. HOLMES: I think they priced in their index, ten pounds of sugar and one quart of fresh milk. Without any weighting being done to this, it sounds like ten pounds of sugar has the same importance as a quart of fresh milk in terms of the price comparison; but it is impossible to tell whether this is so from a newspaper article.

Mr. SALTSMAN: From the way your statistics are gathered, would it in terms of purchase price and the standard of living have a different effect because of the different weighting methods you are using for high income families as against low income families, and therefore perhaps obscure the real standard of living of families?

Mr. HOLMES: It could tend to obscure this, I really do not know, because we do not have an index for the lower income group, and I could not guess at that. I think what we would have to do is actually construct an index for the low income groups to see what might be the effect of a price change for them in relation to the basket they themselves would be buying. Did I understand your question correctly?

Co-Chairman Mr. BASFORD: Except that I think Mr. Saltsman was referring to the whole of the index.

Mr. SALTSMAN: In the sense that perhaps food represents a larger proportion of spending in the low income family than that of the high income family, if the index did not reflect the disadvantage, if there is a disadvantage, to a low income family, it might also not reflect the fact that they would be hurt more during an inflationary period than would other groups.

Mr. HOLMES: If the only difference was that lower income families spend a greater proportion of their income on food but were buying the kind of foods we are pricing for the consumer price index. In this more recent period when food prices have been rising more rapidly than other prices in the index, then a greater weight attached to the food component would produce an index which would have moved higher than the present index, I think your conclusion would be so. It is not clear that the qualities of items that we are pricing are in fact the correct items. This is one of our difficulties in extending our index or introducing an index for other groups, to determine the specifications of clothing, appliances, etcetera, which are bought by the low-income groups.

Mr. LANE: I might make a comment with regard to the article referred to. They indicate they have priced a 10-pound bag of sugar. They also indicate that they were pricing according to D.B.S. specifications. I do not want to pick on

small items but I think there is an indication that they have departed from our specifications. We price a five-pound or seven-pound bag, which is the largest volume selling size throughout Canada. They specifically have identified a 10-pound bag of sugar, so they have not adhered entirely to what they say they did.

Mr. NASSERDEN: How do you arrive at your weighting? What is it based on?

Mr. HOLMES: It is based on the results of a survey of a sample of families, which determines what families are spending their money on, in a particular time period. The present basket is based on a 1957 sample family expenditure survey.

Co-Chairman Mr. BASFORD: You spell that out on pages 2 and 3 of your statement.

Mr. URIE: In point of fact, Mr. Holmes, what you are saying is that the prices which have been indicated, which refer to a survey in a newspaper, might in fact be 8 per cent lower in Toronto. The actual prices for a similar article may in fact be 8 per cent lower in Toronto than they are in Ottawa?

Mr. HOLMES: That might be.

Mr. URIE: You also say, if I understand you correctly, that on the whole food budget, giving the broader weight, as you do, the 8 per cent may be reduced to a figure of 1 per cent, which it was in 1965.

Mr. HOLMES: It would appear to be so from the calculations we have made.

Mr. URIE: For the man who has $25 in his pocket when he goes into a grocery store to buy the 26 items, assuming they are all the same specifications, it is possible that $25 will go 8 per cent further in Toronto than it would in Ottawa. Would that be a correct assumption?

Mr. HOLMES: I have no reason to doubt the accuracy of the study that was made by the other group, but I am really not in a position to say whether it is perfectly accurate or not.

Mr. URIE: I did not hear Mr. Saltsman say who the other group was. Would it be someone from a newspaper?

Mr. SALTSMAN: It was a trade union group. I presume they had a professional doing it. I think the name is there. If you would like to see the article, I have it here. It struck me this morning as being interesting and I thought I would bring it to the committee.

Co-Chairman Mr. BASFORD: While you are reading it, Mr. Urie, may I ask Mr. Holmes, how often do you change the items in the food basket, or up date them?

Mr. HOLMES: The present index is based on the 1957 food basket. We changed that in January 1961—that is when the new index came into being. Before that we had been using a basket relating to 1947-48. It has been our intention to revise the index basket again on the basis of the 1962 family expenditure survey. We had hoped that we would be able to change baskets about every five years rather than every 10 years which seems to have been the case in the past. However, our resources problem prevented us from doing this.

Co-Chairman Mr. BASFORD: How does this take into account new products or old products packaged in a new way, such as cake mixes, which were almost unknown and unused in 1957?

Mr. HOLMES: The basket to which I was referring is that which specifies commodities and services, for which we know the relative expenditure—percentage of total expenditure by families on those items. For any one such item we must choose a sample of outlets, in order to record prices. We price to specifications. If we are talking about shoes we cannot go out and just price shoes per se. We have to get down to the specification of the shoes we are

talking about and price the specification of the shoe. We consult with manufacturers of shoes and with retailers to determine what is the volume seller—style, kind and type and quality of shoe—and these are specified in considerable detail in the specification sheets which we provide to our pricing officers in the field. From time to time these specifications change. At the time that we wish to introduce a new specification, because it is now more important than the one we were pricing before, we attempt to judge the relative quality of the old and the new. There is a variety of techniques which can be used here. One technique that I suppose is common to index number makers all over the world is to accept the relative prices of two specifications as indicative of their relative qualities. In other words, if we have the price of a pair of shoes at a point of time, selling for $15 and if the specification changes and we pick up a pair of shoes at the same point of time selling for $18, then the $18 pair of shoes presumably has a quality corresponding to the prices $18-$15 and we make an adjustment. The index would not move because of the introduction of the new specification. In other words, if we change the specification, at the point of change we do not allow the index to move.

Co-Chairman Mr. BASFORD: I am concerned with what you have done for food items. It would be my observation—we have not had expert evidence on it yet but we intend to have some—where there has been in the last few years vast changes in buying habits of people. Cake mixes are one; they are buying T.V. dinners and frozen vegetables which five years ago many people did not buy very much of. Now the average person seems to be buying vast quantities of these. How is the price of these newer items, or these differently packaged items, reflected in the index?

Mr. LANE: We do not include the T. V. dinner. As to the cake mix, the kind of changes that tend to take place in cake mix are more of a technical character, not just the introduction of cake mix. Let me give you an example of one which recently came to my notice. When the dairies introduced plastic milk bottles, the standard kind of container was a glass bottle or a cardboard carton. We were confronted with the problem of deciding whether the five cents extra for a three-quart plastic milk bottle represented all quality change or partly a quality change over the glass jar. The final decision was arrived at, based on this sort of approach. With the glass milk bottle you had a certain amount of inconvenience, as you had to bring it back or it cost you 25 cents. We decided that the five-cent differential was really an additional charge offsetting this inconvenience. So we treated that as a quality change. What we did was, we priced both plastic and glass containers for the same period of time and then we spliced it, that is, we let the plastic be equivalent to to the glass one, selling in Ottawa at 67 to 72 cents—at the time—and we accepted that five cents differential as a quality differential.

Co-Chairman Mr. BASFORD: Do you or your shoppers see an influence on the index by reason of different or new packaging?

Mr. LANE: If we see difference, we try to take it into account, and where it has a quality effect, like the example cited here, we eliminate it. It would not be considered to influence the index.

Mr. HOLMES: In other words, the index would not move because of the introduction of the plastic bottle.

Co-Chairman Mr. BASFORD: You lost me, I am afraid. What would happen?

Mr. LANE: We would be pricing in this case, the milk as milk rather than in terms of the kind of container it comes in. Therefore, when I say that we splice it out, what we do is to price both the glass bottle and the plastic bottle for the same period—month—of time. If it came in, in January, we would price both in January. In February we would then relate the February price

for the plastic bottle only and we would drop the glass bottle from the pricing program and, in that way, it would not influence the index at all.

Co-Chairman Mr. BASFORD: What happened to the index when, as I understand is the case, baby food was changed from tin cans to glass jars?

Mr. HOLMES: Do you recall the specifics of that?

Mr. LANE: Yes, I do. This one is more difficult to arrive at.

Co-Chairman Mr. BASFORD: The tin cans went out of existence pretty well.

Mr. LANE: They went entirely out of existence. In fact, the only time you can find them now is if somebody has old stock. They are just not being produced.

Here the judgment was more difficult because it was not easy to point to a particular convenience. However, one can concoct the argument that it is easier to turn a cap than it is to put a can opener into a can. In this case, though, again we did not allow this change to influence the index. We priced glass jars and canned baby food for an overlapped period and then we made the shift, the introduction of glass jars into the index, without allowing the change in the price, I think there was about a 2¢ differential, as I recall.

Co-Chairman Mr. BASFORD: On the basis of your experience, then, are you able to give us the influence of packaging on prices? Not on the index, because you have explained that you adjust the index, but on prices?

Mr. LANE: In the main, I would say that packaging tends to have an upward push on prices as such, *vis-à-vis* plastic jugs going into milk bottles and glass jars going into baby food.

Another case recently that has hit us is the soft drink industry where they have gone, or are trying to go, from glass bottles to tin cans. When they first introduced the tin cans, with all the various kinds of convenience openings, they were much higher priced. But then they began to special these on promotion and now, as a shopper, I find all kinds of cases where the soft drinks that come in glass containers can be purchased for less today than the tin cans. But this was not true when they were promoting tin cans.

They were specialing these things, and if I may just draw this to a conclusion, we do eliminate this sort of special.

When the market is unstable, when there is a new kind of packaging or a new variety coming in and the firm is promoting its product, we do not allow this to influence the index. There is a rule of thumb that we apply here, and it was applied to razor blades, for example. When they shifted from regular steel to stainless steel, we did not bring stainless steel razor blades into the index until they became established in the market. We used a criterion such that when they reached about 20 per cent of the total market then we bring these new items in.

Co-Chairman Mr. BASFORD: Well, I go back to my question. Could you give us by way of a statement later the major examples over the last five years where packaging has had a direct influence on prices, not on the index but on prices, such as the price of glass jars for baby food.

Mr. LANE: We could do this. You are thinking of making a listing indicating—

Co-Chairman Mr. BASFORD: Examples, yes.

Mr. LANE: Examples of items, and when these things were introduced and possibly indicate the effect on prices.

Co-Chairman Mr. BASFORD: Yes.

Mr. LANE: I could do that.

Senator CARTER: Might I ask a supplementary question to that.

Co-Chairman BASFORD: Yes.

Senator CARTER: Along that line you have a similar problem with packages that contain gimmicks, of premiums and packages of detergent with cups in them and things of that sort. How do you handle that? How do you adjust for that? How do you adjust for the effect that has on prices? Because, actually, a person who buys, for example, cereals, is not altogether paying for the cereal but is paying for the cereal plus perhaps a toy or a toy automobile or something of that sort that is in the package. A glass cup or something.

Mr. LANE: Here we rest the case—

Co-Chairman Mr. BASFORD: If you buy enough corn flakes you can furnish your house.

Mr. LANE: Here, if I may reiterate what was presented in the prepared statement, we try to price and do price to specifications. Where a firm introduces some associated product with its main product, it will not any longer meet specifications. Even though the main product might meet specifications, the addition of this gimmick or associated product would therefore exclude it so that we would not price it.

Mr. SALTSMAN: This is a supplementary question. I would like to pursue the interesting line of questioning on packaging begun by the Chairman. I was wondering if, when you are looking for your examples, you could examine the changeover in bacon from the plain package to the fancy package. When that took place what effect did it have, if any, on the price of bacon?

Mr. LANE: Which commodity?

Mr. SALTSMAN: Bacon. I know it is a very difficult subject, but can I assume, then, from some of the things that you have said that the cost of living, or your index, does not always reflect the pattern of buying that is taking place in a community. Because some products cease to be exactly as they were previously you drop them out. Is this a correct assumption that in fact the expenditures on food may be higher than your index would illustrate for this reason?

Mr. LANE: If we drop a product, its effect would have to be replaced by either a close substitute item—and, typically, this is the case, or, alternatively, the relative expenditure weight that that item represented would have to be re-allocated to all the other items.

Now, I do not recall any example right off-hand where this has ever happened. Again I make reference to the paper, we talked about taking representative items for a host of small items. There are a number of examples where we have found that the price for some of the related items that we were not pricing, began to move in a different direction from the ones we were pricing. In that case, we would break out the weight for this minor item and begin to price it separately. Therefore, it would be introduced into the index.

A good case in point is prepaid medical care. When the medical group-plans and private individuals' coverage tended to move together, they were pooled for weighting purposes. We suddenly discovered in some areas of the country that the price to the individual family began to rise more rapidly than the group prices, so we had to break this out. We priced the service or the cost of prepaid medicare for the individual family separately and put that into the index, and when we did this, I might add, it had quite an important effect.

Now, it did not affect the "All Items" Index at the national level, but it did affect the Health and Personal Care component at the national level.

Mr. SALTSMAN: Can we go to a concrete example? I realize it is a rather esoteric subject for the layman to get into, but can we go back to the example you gave us regarding the transition from cans to glass jars with baby food? Is it correct that you took that item out of the index when it went from cans to glass jars?

Mr. LANE: We took the can out and used the jar.

Mr. SALTSMAN: Did you modify your index base so that it did not reflect the increase in cost because of the jar?

Mr. LANE: Yes, and the way we do it is the way I tried to describe earlier. We priced both when they both existed on the market. Supposing we are calculating the September index, for example, and we can price both cans and jars in the month of September. In August, the last time we priced, we were carrying the can. Now we would base the movement from August to September on the price for the can. In September we also priced the jar and that was an extra price. In October we dropped out the can and re-priced the jar and the movement from September to October is based on the price movement on the jar as between September and October.

Mr. SALTSMAN: So that the price index would have reflected the increased cost of baby foods because of the transition from cans to jars.

Mr. LANE: No, we would have eliminated that by this process.

Mr. SALTSMAN: This is important from the consumer's point of view because he would be paying for the jar. The cost has gone up but the price index is not showing it.

Mr. LANE: And this is the key difference between a cost-of-living index and a price index.

Mr. SALTSMAN: This is a change in product.

Mr. HOLMES: The consumer is getting something more than he got before but it is a good question whether he wants it or not.

Mr. SALTSMAN: But you have the situation where the housewife knows the money is coming out of her pocket while Government statistics say it isn't so.

Mr. LANE: An example of this which is even more impressive is the difference in price paid for black and white television and colour television. You can buy a black and white television set for $200, say, and you might have to pay $400 for a colour television.

Mr. SALTSMAN: How do you relate the effect that the change in product design is having on the consumer's dollar purchases? Apparently from the preliminary information you have given us there is reason to assume that the change in product design and packaging is really raising the cost to the consumer although the quality may be different. This is happening and it is not showing up in these statistics.

Mr. HOLMES: This is why it is a price index rather than a cost-of-living index. That is one of the reasons. The index does reflect a price movement. The prices we use do not reflect changes in quantity or quality of goods and services which consumers are buying.

Mr. SALTSMAN: Can these statistics be meaningful unless you relate these items to them? Unless you know the volume of purchases and unless you take into account the fact that these things cost more because of production change, can these figures be meaningful?

Co-Chairman Mr. BASFORD: Mr. Lane is going to give a statement on this which I hope will be helpful.

Mr. LANE: It won't be much, but it will have some value.

Mr. HOLMES: To give another example of what the index does not reflect: If because of better income and so on consumers as a group shift to purchase higher quality meat cuts, sirloin steak as opposed to hamburg, for example, the index would not reflect that kind of increase in the cost of living which I am sure would represent a higher level of living.

Mr. SALTSMAN: How does one go about collecting some information along these lines?

Mr. HOLMES: This will give you some idea of the situation we have faced in trying to eliminate this.

Mr. SALTSMAN: From the point of view of the committee it is important to find out what is causing the increase in the price of food to the consumer. This could be a very pertinent exploration. How do we go about finding the information regarding changing patterns, changes in volume and style and other things we discussed?

Co-Chairman Mr. BASFORD: The D.B.S. gave a survey of changing buying patterns.

Mr. HOLMES: The latest information is 1962 and that is for food only. We have a 1964 survey involving all items of the budget with no food detail. It is at the moment blocked up in the computer. I am wondering whether we cannot get an indication of changes in what is often called "real" consumption—that is the constant dollar statistics of personal expenditure on goods and services. This tells you about the changes in the quantity and quality of goods and services being purchased over a period of time, whereas what we have been telling you about relates to changes in the price. In other words, for the value of dollar expenditures on personal goods and services attempts are made to separate out the two components of this increase in dollar expenditure. One is the price component which we have been talking about and the other is the quantity and quality component which is often termed "real" consumption or "real" production. Now this type of statistic is produced in connection with the national accounts. There is a constant dollar series.

Mr. SALTSMAN: Will there be figures to show how much hamburger is consumed in the year as against the amount of steak?

Mr. HOLMES: You could get particulars of this from the 1962 family survey of expenditure. That kind of detail I believe is not available any place else.

Mr. SCOTT (*Danforth*): That would be from day to day.

Co-Chairman Mr. BASFORD: Could you send Dr. James a copy of that?

Mr. HOLMES: For food only, yes.

Co-Chairman Mr. BASFORD: And he can send it to Mr. Saltsman.

I do not want to play upon the indulgence of the committee, but I have a bill to present in the House of Commons fairly shortly. If there are no further questions we will adjourn.

I would like to thank Mr. Holmes and Mr. Lane very much for coming here this afternoon and giving this very helpful presentation, and for undertaking to supply the information we have asked for. I think it was helpful to the committee to hear the statement and to see the graphs showing how the Consumer Price Index was made up.

Next week we are scheduled to hear from the chain store people, starting on Monday at 3.00 p.m. with the Great Atlantic & Pacific Tea Company. After that we shall hear from Dominion Stores Limited, Steinberg's Limited, Loblaw Groceterias Company Limited, and others.

Whereupon the committee adjourned.

Appendix "8"

SELECTED GRAPHS AND DIAGRAMS OF THE CONSUMER PRICE INDEX FOR CANADA

PREPARED FOR

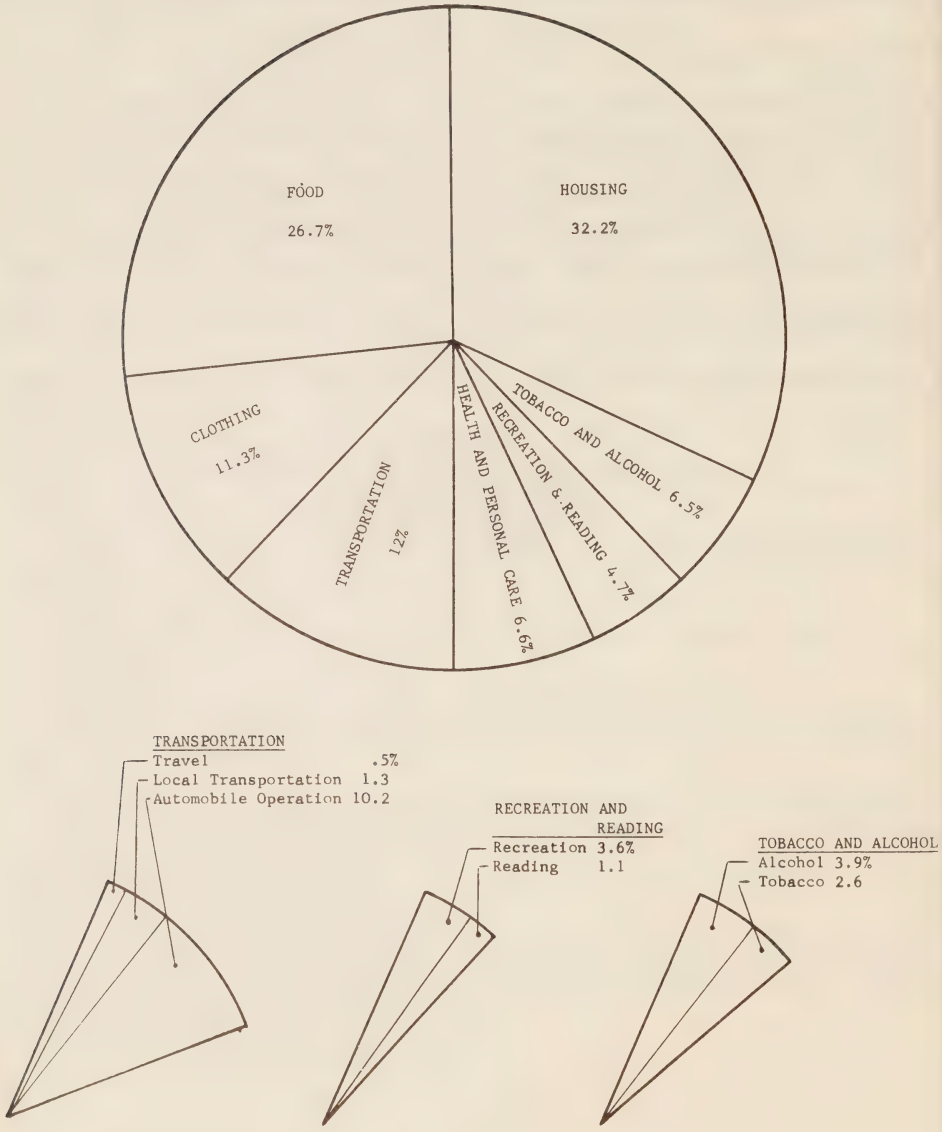
THE JOINT COMMITTEE OF THE SENATE AND THE HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

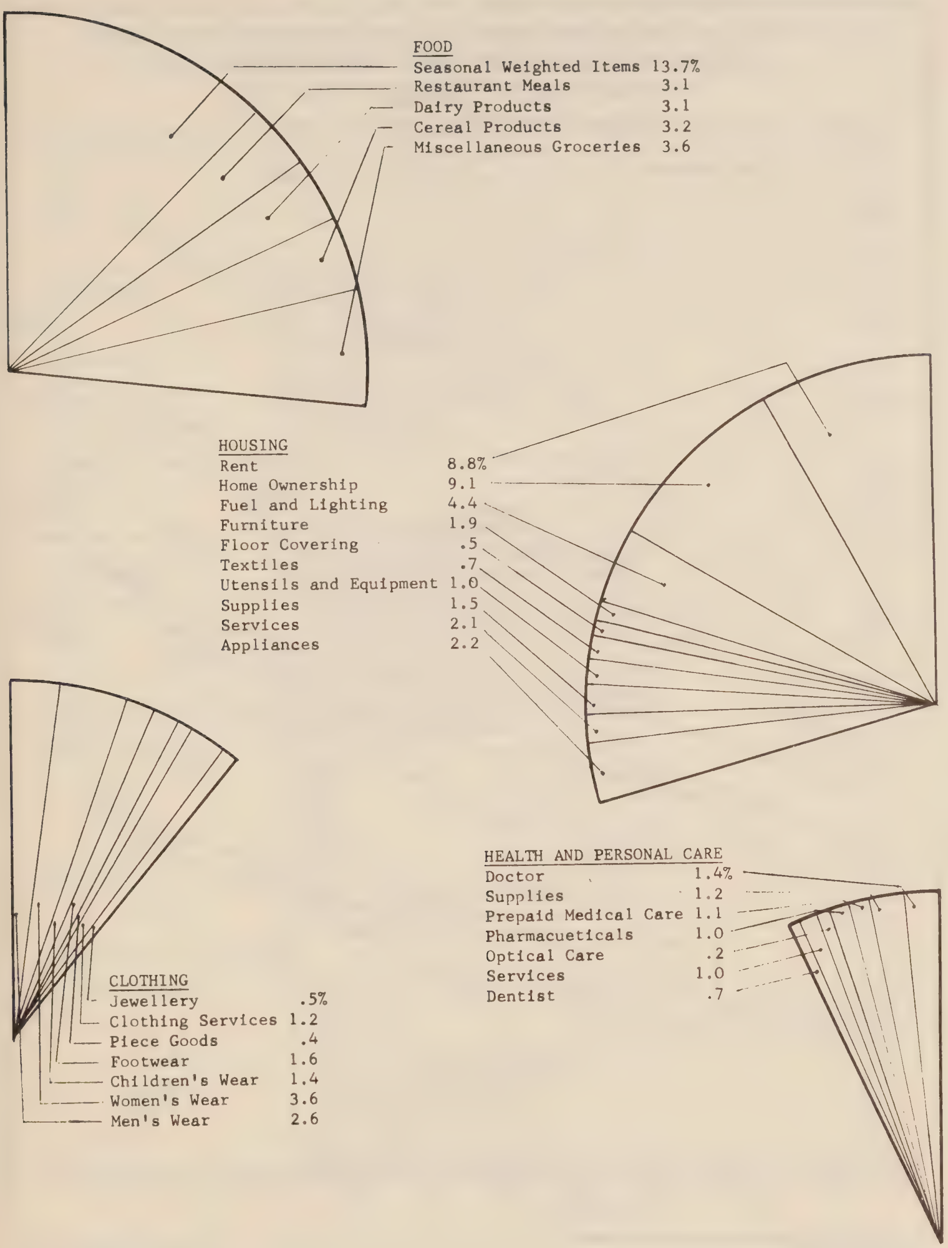
The Consumer Price Index Weighting Diagram
All Items and Main Components of The Consumer Price Index
All Items, Group and Sub-Group Price Index Numbers—July, 1966
Price Movements for Total Food Index and Selected Components
Price Movements for Selected Food Items—Meats
Price Movements for Selected Food Items—Fresh Vegetables
Percentage Change in Average Retail Prices for Canada—April 1964 to April 1965
Percentage Change in Average Retail Prices for Canada—April 1965 to April 1966
Percentage Change in Average Retail Prices for Canada—July 1965 to July 1966

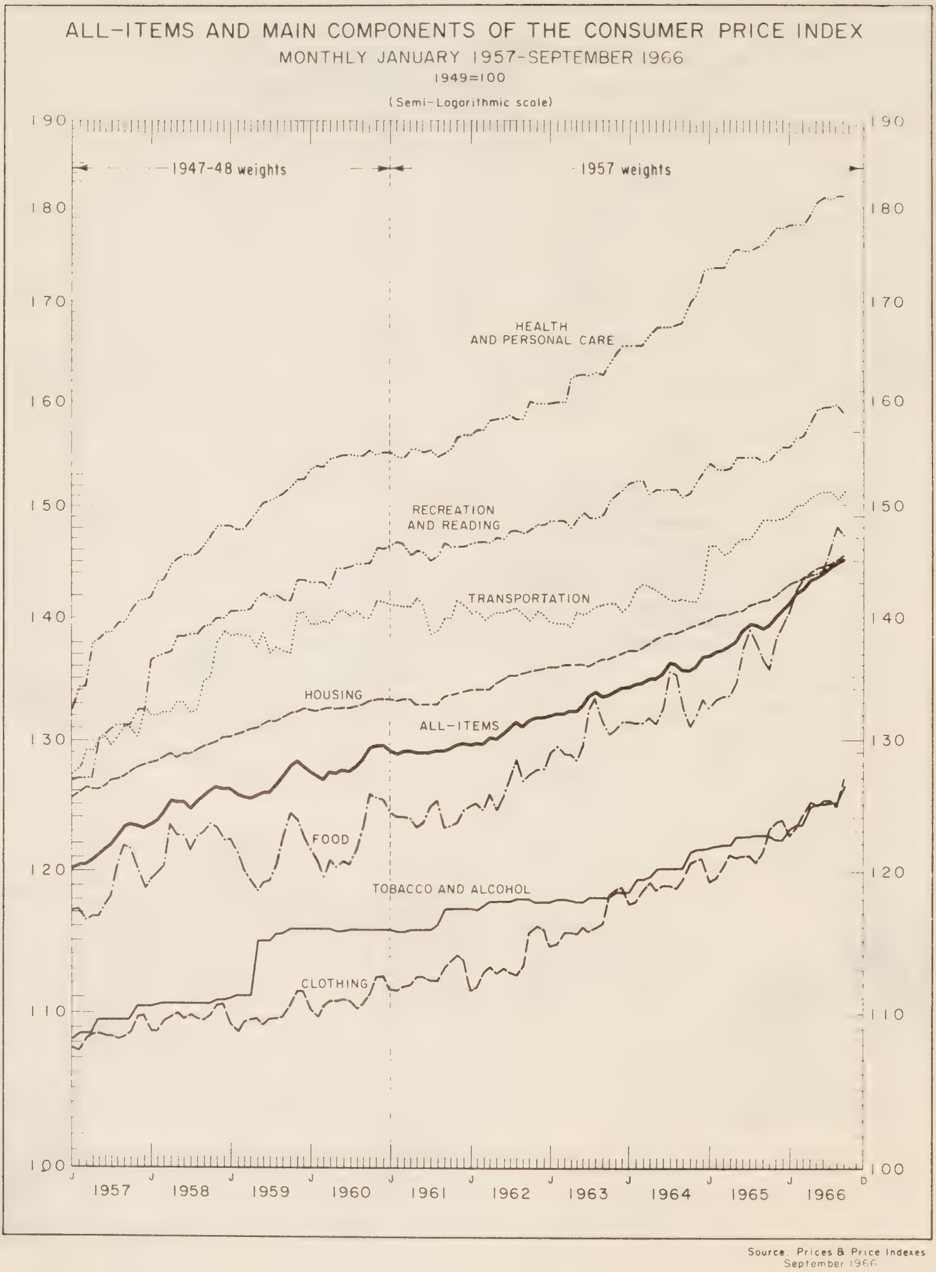
Prepared By
THE DOMINION BUREAU OF STATISTICS
PRICES DIVISION
RETAIL PRICES SECTION
October, 1966

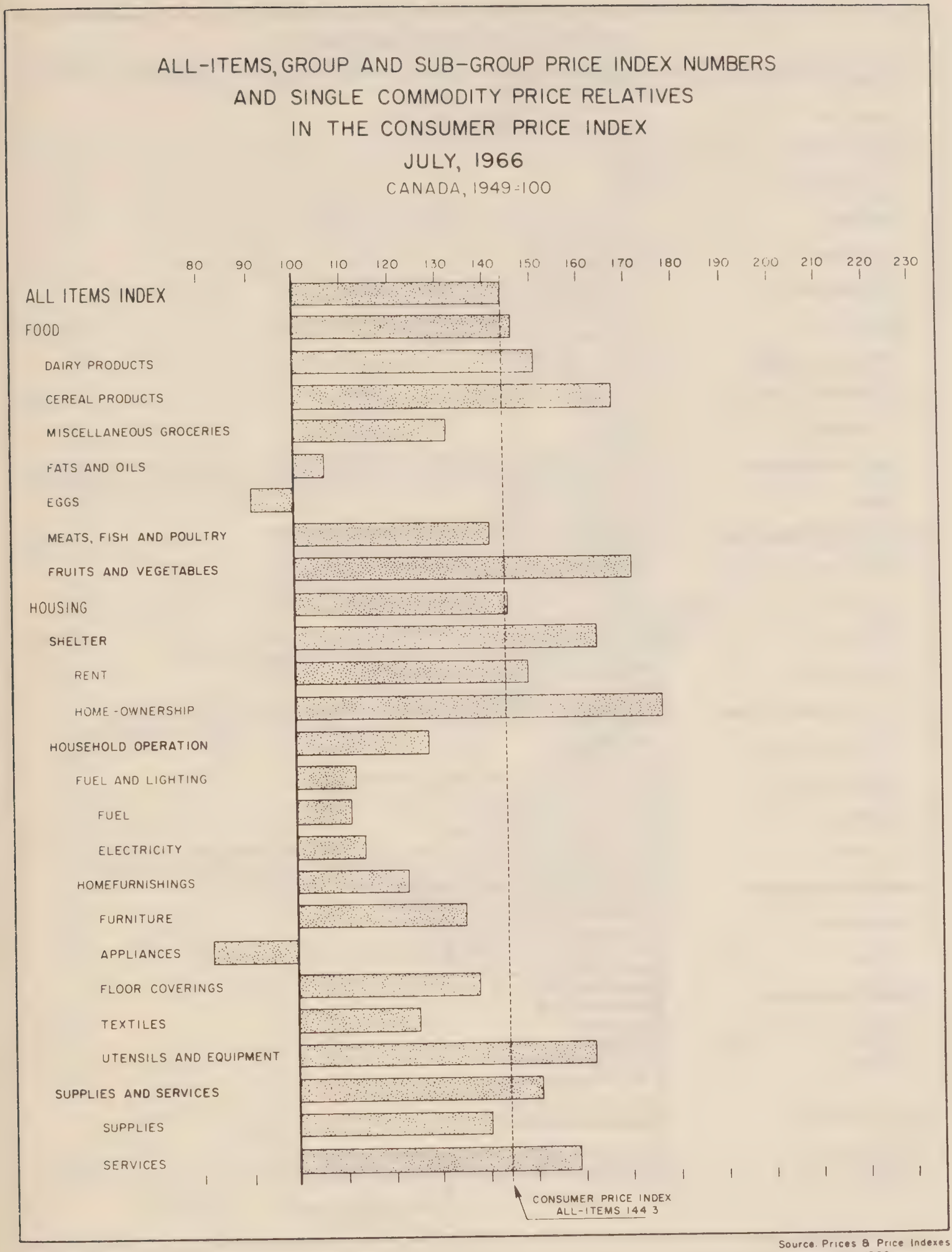
CONSUMER PRICE INDEX WEIGHTING DIAGRAM

MAIN GROUPS AND SUB-GROUPS (1957 REVISION)

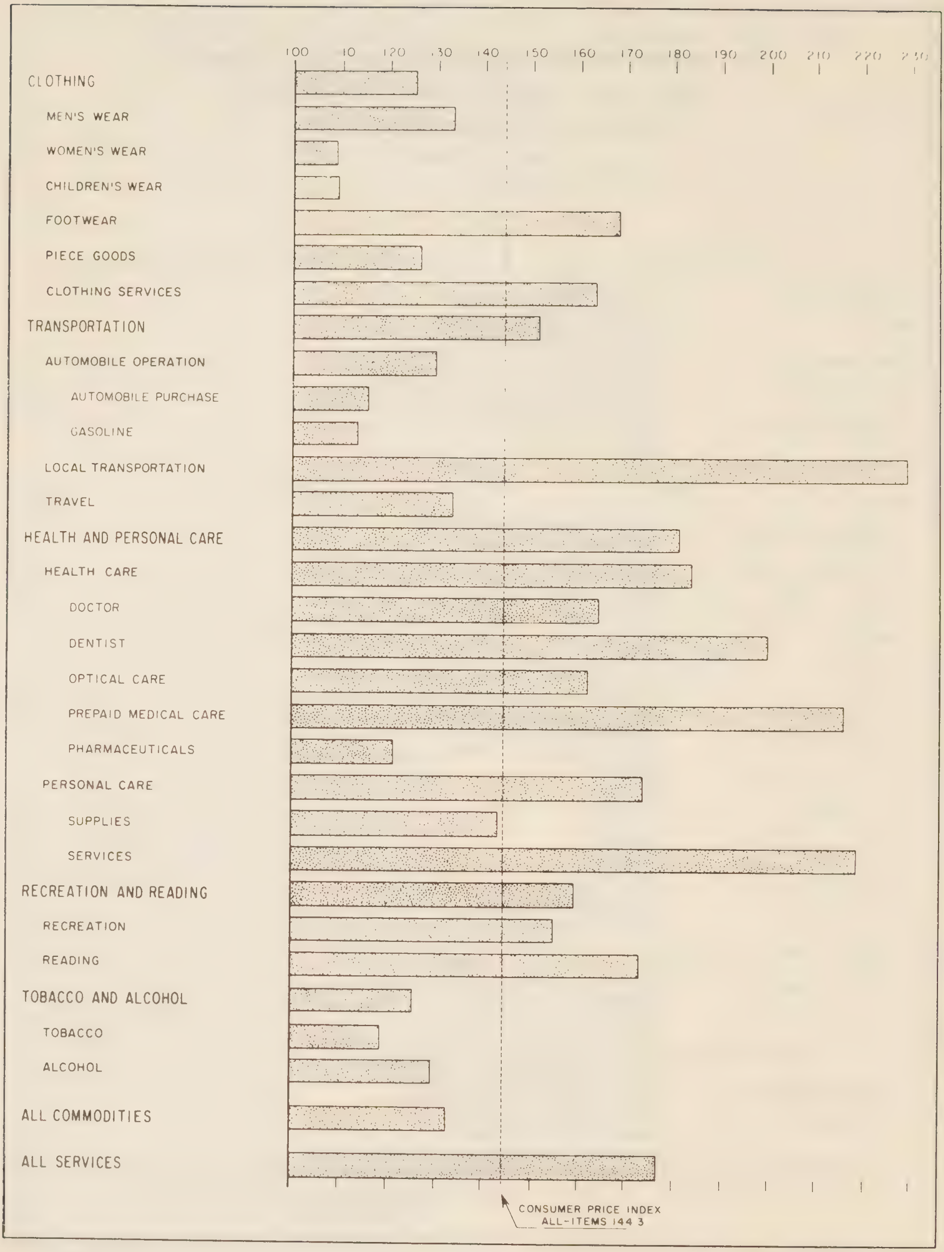



FOOD
Seasonal Weighted Items 13.7%
Restaurant Meals 3.1
Dairy Products 3.1
Cereal Products 3.2
Miscellaneous Groceries 3.6
HOUSING
Rent 8.8%
Home Ownership 9.1
Fuel and Lighting 4.4
Furniture 1.9
Floor Covering .5
Textiles .7
Utensils and Equipment 1.0
Supplies 1.5
Services 2.1
Appliances 2.2
CLOTHING
Jewellery .5%
Clothing Services 1.2
Piece Goods .4
Footwear 1.6
Children's Wear 1.4
Women's Wear 3.6
Men's Wear 2.6
HEALTH AND PERSONAL CARE
Doctor 1.4%
Supplies 1.2
Prepaid Medical Care 1.1
Pharmacueticals 1.0
Optical Care .2
Services 1.0
Dentist .7

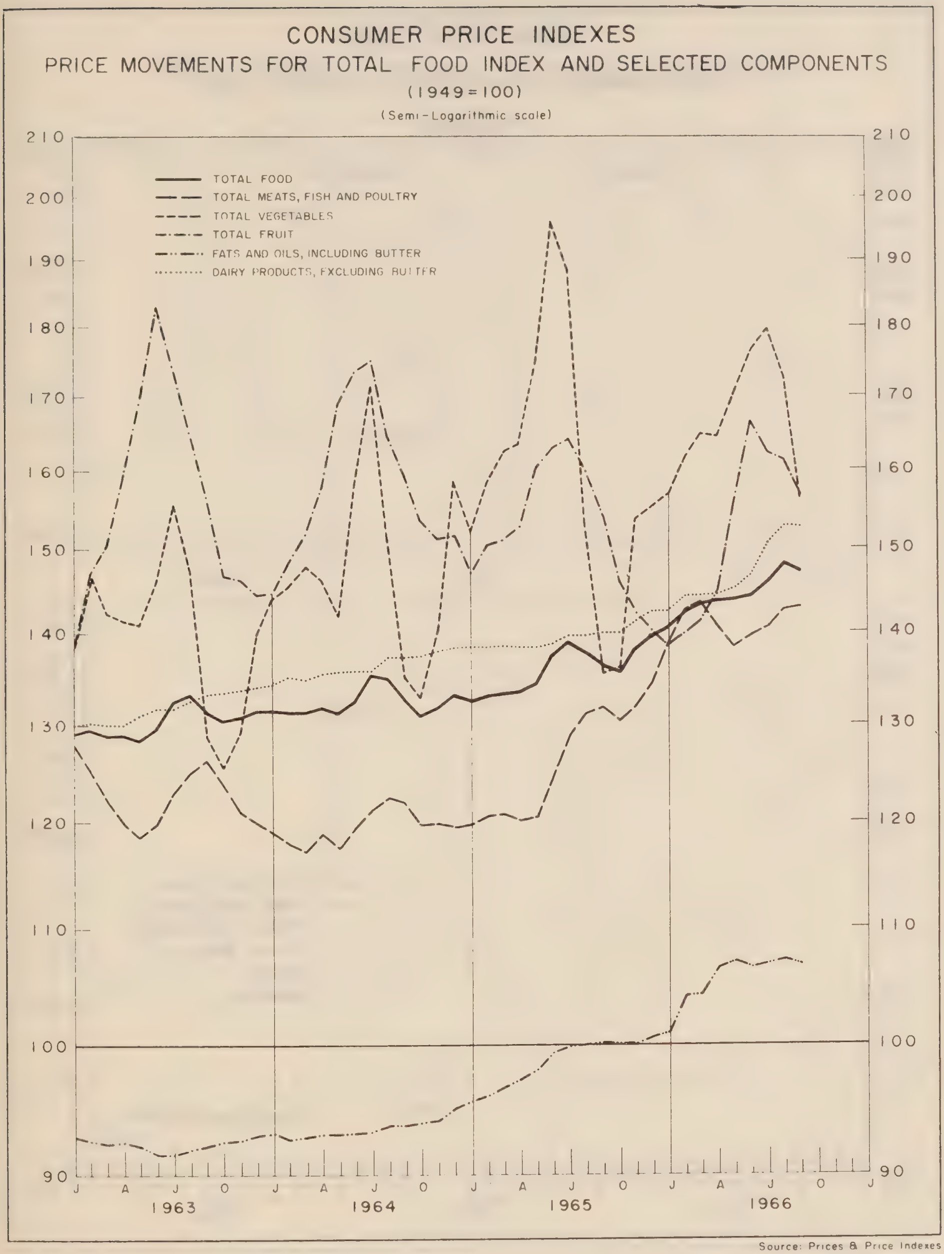

ALL-ITEMS AND MAIN COMPONENTS OF THE CONSUMER PRICE INDEX
MONTHLY JANUARY 1957-SEPTEMBER 1966
1949=100
(Semi-Logarithmic scale)
1947-48 weights
1957 weights
HEALTH AND PERSONAL CARE
RECREATION AND READING
TRANSPORTATION
HOUSING
ALL-ITEMS
FOOD
TOBACCO AND ALCOHOL
CLOTHING
190
180
170
160
150
140
130
120
110
100
J
D
1957
1958
1959
1960
1961
1962
1963
1964
1965
1966
Source. Prices & Price Indexes September 1966



Source. Prices & Price Indexes
July, 1966



Source Prices & Price Indexes
July, 1966

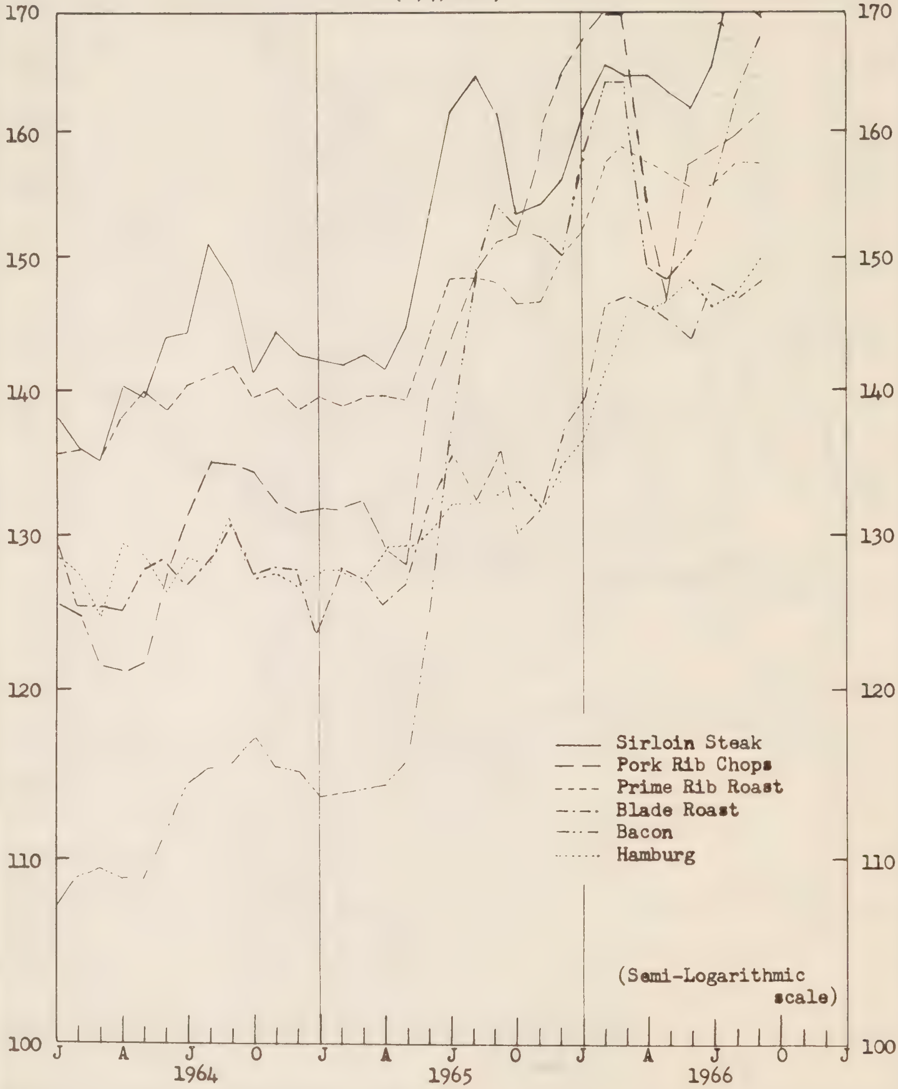


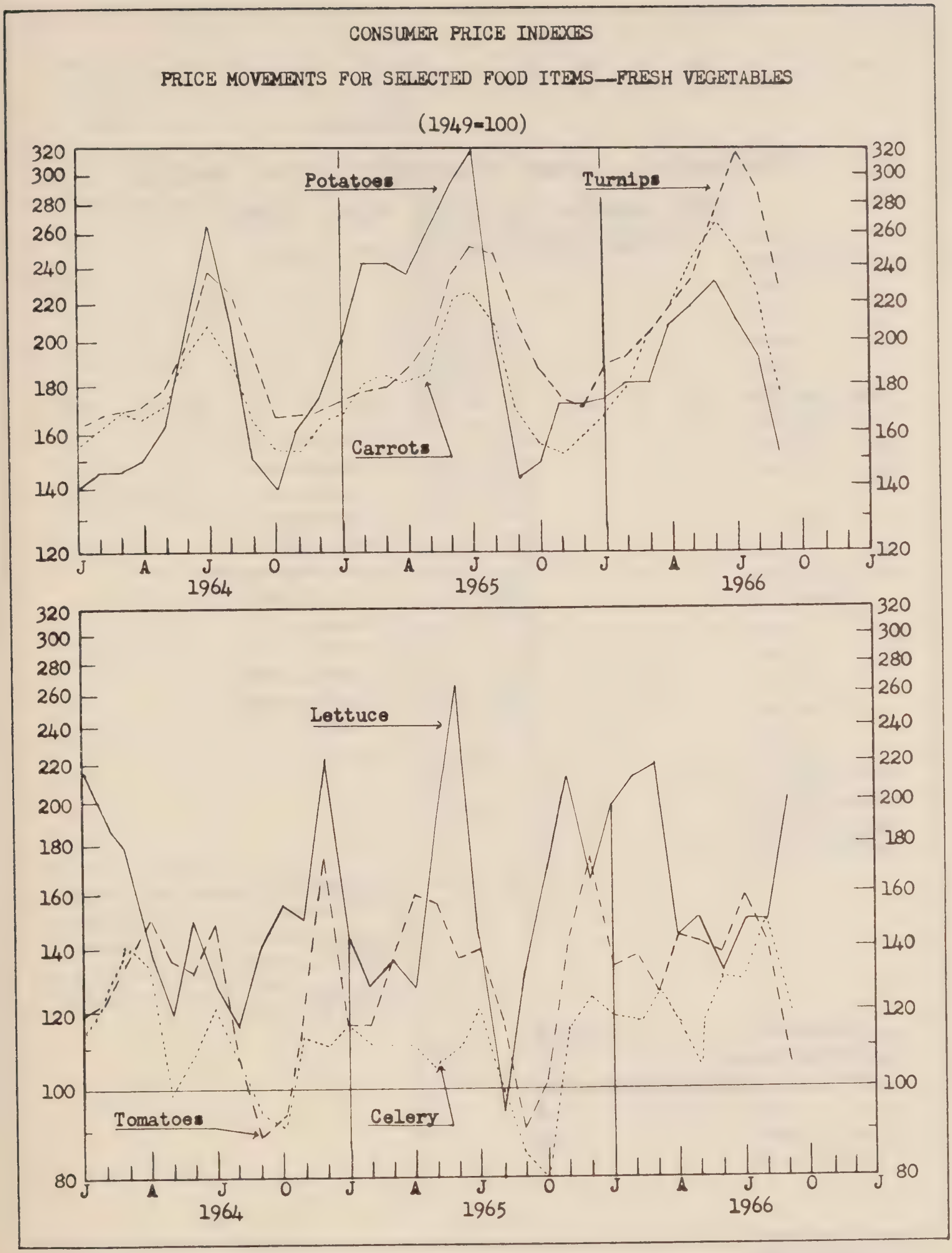
Source: Prices & Price Indexes
June 1966

CONSUMER PRICE INDEXES

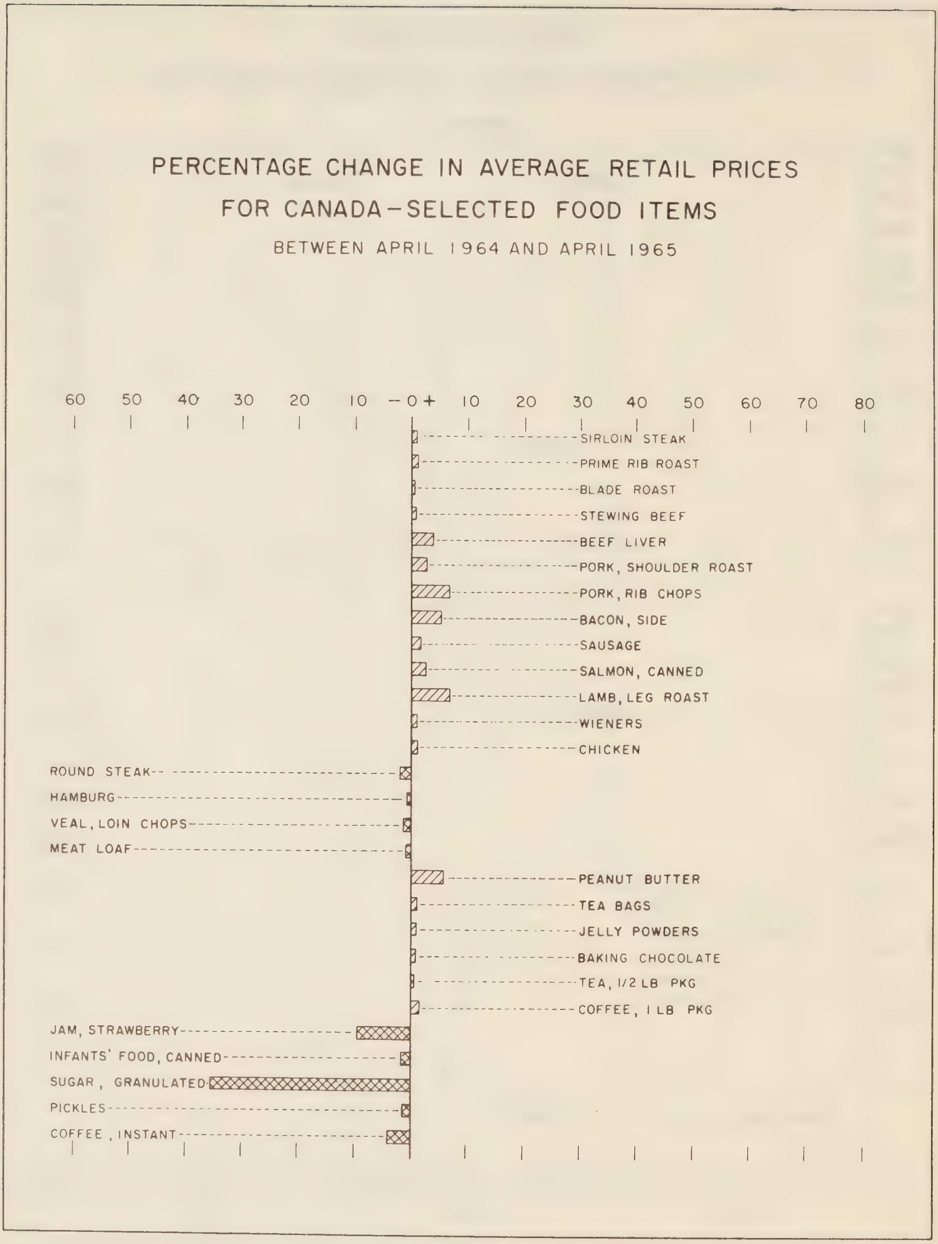
PRICE MOVEMENTS FOR SELECTED FOOD ITEMS — MEATS

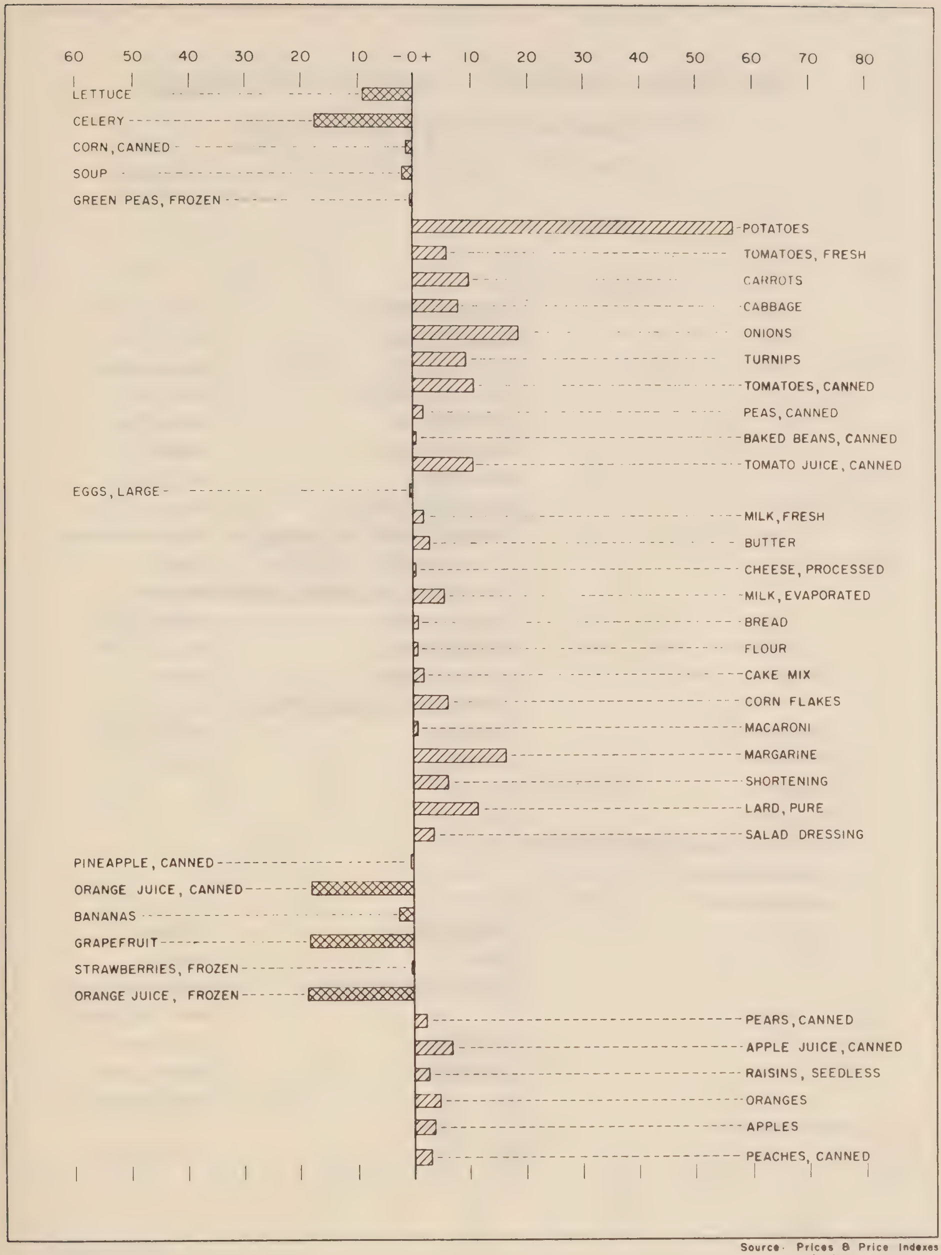
(1949=100)



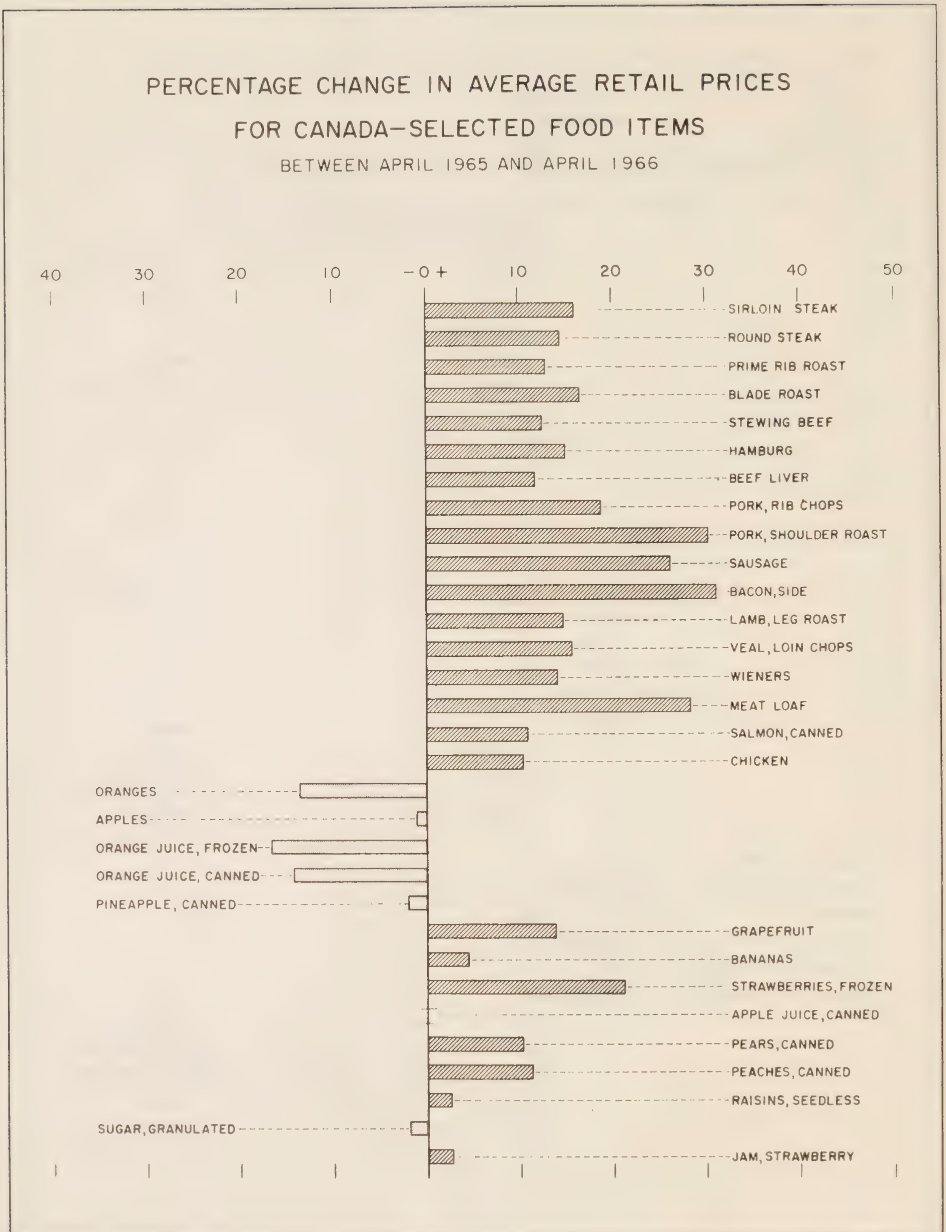


(Semi-Logarithmic scale)

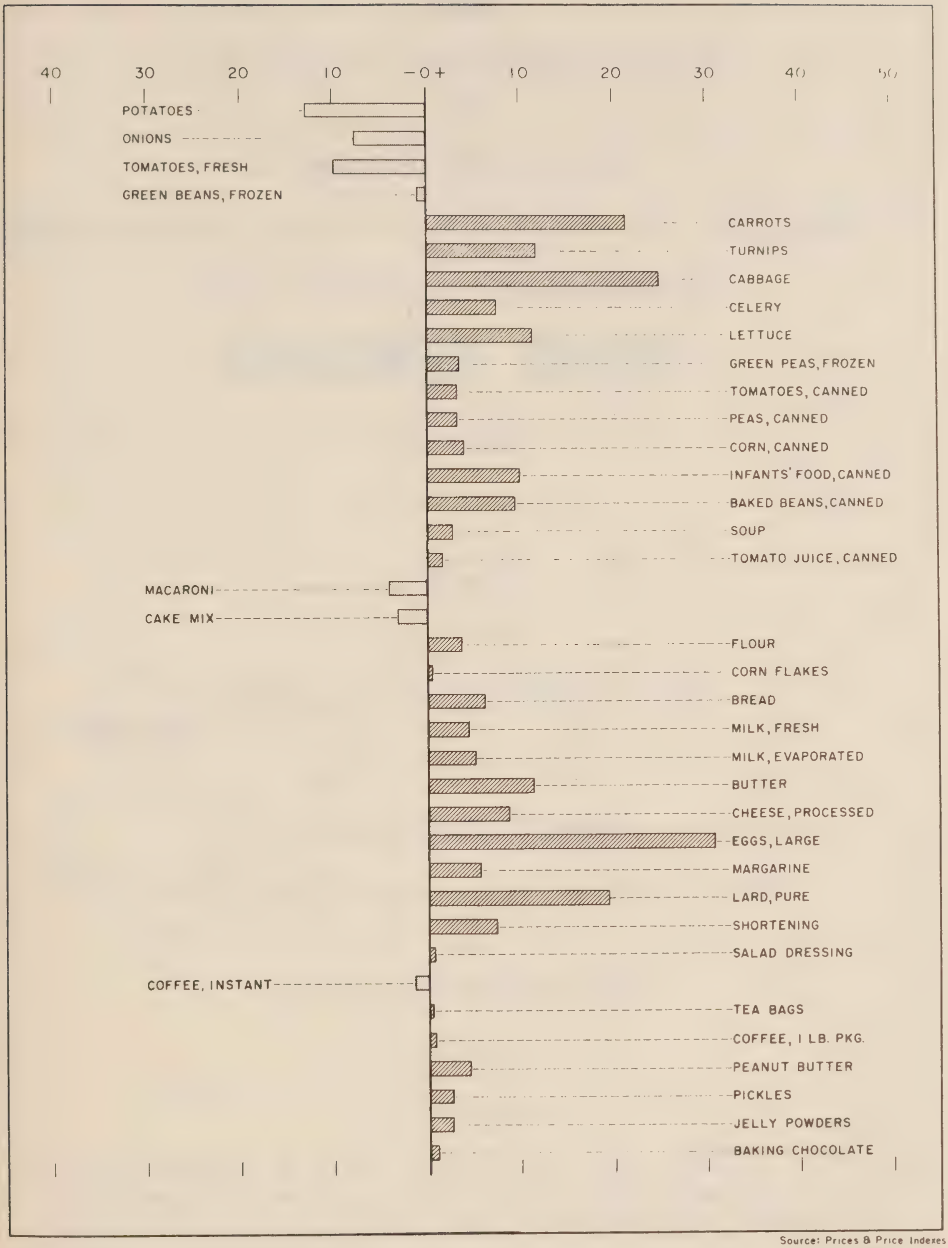

PERCENTAGE CHANGE IN AVERAGE RETAIL PRICES
FOR CANADA—SELECTED FOOD ITEMS
BETWEEN APRIL 1964 AND APRIL 1965
60 50 40 30 20 10 – 0 + 10 20 30 40 50 60 70 80
SIRLOIN STEAK
PRIME RIB ROAST
BLADE ROAST
STEWING BEEF
BEEF LIVER
PORK, SHOULDER ROAST
PORK, RIB CHOPS
BACON, SIDE
SAUSAGE
SALMON, CANNED
LAMB, LEG ROAST
WIENERS
CHICKEN
ROUND STEAK
HAMBURG
VEAL, LOIN CHOPS
MEAT LOAF
PEANUT BUTTER
TEA BAGS
JELLY POWDERS
BAKING CHOCOLATE
TEA, 1/2 LB PKG
COFFEE, 1 LB PKG
JAM, STRAWBERRY
INFANTS' FOOD, CANNED
SUGAR, GRANULATED
PICKLES
COFFEE, INSTANT



Source: Prices & Price Indexes
April 1965



Source: Prices & Price Indexes
April 1966



Source: Prices & Price Indexes
April 1966

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE

AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 8

MONDAY, OCTOBER 17, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. S. Ron Basford, M.P.

WITNESSES:

The Great Atlantic & Pacific Tea Company Ltd.: Mr. G. N. Provost, Chairman and President; Mr. F. C. Kennedy, Vice-President, Sales; Mr. H. W. Piper, Director, Meat Operations; Mr. George Perley-Robertson, Q.C., Counsel.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

24996—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, Chairman

the Honourable Senators

Carter,
Croll,
Davey,
Deschatelets,
Hastings,
Hollett,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. S. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Duquet,
Gray,
Irvine,
Leblanc (*Laurier*),
Lefebvre,
Mandziuk,
McCutcheon,
McLelland,
Nasserden,
Olson,
Otto,
Ryan,
Saltsman,
Scott (*Danforth*),
Smith,
Whelan—(24).

36 members
Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

24996—1½

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

MONDAY, October 17, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 3.00 p.m.

Present: *For the Senate*: The Honourable Senators Croll (*Joint Chairman*), Carter, McDonald (*Moosomin*), O'Leary (*Antigonish-Guysborough*) and Thorvaldson.—5.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Choquette, Clancy, Leblanc (*Laurier*), Lefebvre, Mandziuk, Olson, Ryan, Saltsman, Scott (*Danforth*), Smith and Whelan.—13.

In attendance:

Dr. R. Warren James, Special Assistant.

Mr. John J. Urie, Q.C., Counsel

Mr. Marcel Joyal, Q.C., Associate Counsel.

Mr. Jacques L'Heureux, C.A., Accountant.

The following were heard:

The Great Atlantic & Pacific Tea Co. Ltd:

Mr. G. N. Provost, Chairman and President.

Mr. F. C. Kennedy, Vice President, Sales.

Mr. H. W. Piper, Director, Meat Operations,

Mr. G. Perley-Robertson, Q.C., Counsel.

At 3.15 p.m. the witnesses were permitted to retire and the Committee proceeded *in camera*.

At 3.54 p.m. the hearing was resumed.

Messrs. Provost, Kennedy, Piper and Perley-Robertson were further heard.

At 5.50 p.m. the Committee adjourned until tomorrow, Tuesday, October 18 at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Monday, October 17, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 3 p.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: Gentlemen, I see a quorum; the meeting will please come to order.

We have before us The Great Atlantic and Pacific Tea Company, Limited, represented by Mr. G. N. Provost, Chairman and President; Mr. F. C. Kennedy, Vice President, Sales; Mr. H. W. Piper, Director, Meat Operations, and Mr. George Perley-Robertson, Q.C., Counsel.

I should make it quite clear that we look upon this as a preliminary hearing, and after we have heard what you have to say and after we have read the evidence as a result of questioning, we intend to invite you back at a later date.

Mr. G. N. Provost, Chairman and President, The Great Atlantic and Pacific Tea Company, Limited: Honourable senators and honourable gentlemen, The Great Atlantic and Pacific Tea Company, Limited, better known as A & P, was incorporated under the Companies Act of Canada in 1919, and has now 196 retail outlets throughout the provinces of Quebec, Ontario and Manitoba, with its principal place of business at 5559 Dundas Street West, Etobicoke, and warehouses located in Toronto, Montreal and Etobicoke, with approximately 7,000 employees.

We appreciate the concern of Parliament with respect to the cost of foods in Canada, and for almost forty years we have dedicated ourselves to providing more good food, for more people for less money.

We believe it will assist the committee to understand the objectives and policies of A & P if we quote the A & P policy which is prominently displayed in all of its retail outlets:

> Always to:
>
> Do what is honest, fair, sincere and in the best interest of every customer;
>
> Extend friendly satisfying service to everyone;
>
> Give every customer the most good food for her money;
>
> Assure accurate weight every time—16 oz. to each pound;
>
> Give accurate count and full measure;
>
> Charge the correct price;
>
> Cheerfully refund customer's money if for any reason purchase is not satisfactory.

In 1963 an article appeared in a leading magazine making reference to A&P as being "Penny Pinchers". Caring about pennies has always been a tradition of A&P and it is a dedication to this principle that makes us constantly alert to our cost of doing business, and the need for proper control.

At the present time a series of advertisements are being run in all newspapers in which we advertise, outlining our concern for the consumer. These ads entitled "We Care" explain, among other things, our rain check policy, which means that if we sell out of an advertised special—and we try very hard not to—the customer is given a rain check which entitles her to obtain the same item at the advertised price on her next shopping visit.

(*See Appendix "A" following this text for actual advertisement.*)

When we say that our meat packages are presented with the "best side down" we mean just that. Mrs. Consumer is assured that the portion of self-service meat she cannot see is equal to, or better than, the portion she sees; there is no hidden fat or bone.

(*See Appendix "B" following this text for actual advertisement.*)

Our meat buying policy calls for only red brand beef—Canada's finest quality—and in addition only grade "A" pork, veal, lamb and poultry are purchased within certain weight ranges which we consider top grade products to pass on to the consumer. All meat is purchased from suppliers under federal inspection.

Many A&P private brands are available to the customer and only after careful inspection of the producing plant, and our quality standards being satisfied, is it offered to the consumer.

SPECIFIC TOPICS:

The special assistant to this committee has sent to us a list of suggested topics for discussion by retail food chains. This portion of the brief will deal with those topics although, for obvious reasons, certain statistical data are not included but are available for the co-chairmen of the committee.

QUALITY AND PRICE CONTROL:

The procurement of all commodities is the responsibility of our purchasing department located at head office, where close control of quality, quantity and cost is constantly exercised. Our sales department, also located at head office, is responsible for the pricing of our goods. Our policy, generally, is not to increase retail prices on the basis of advances in costs until current stocks are depleted. On the other hand, our policy is to immediately lower retails when the markets decline.

CONTROLLED SUPPLIERS:

No suppliers from whom we buy are under our control.

BRANDED PRODUCTS:

A&P branded products are used extensively in our merchandising at retails in most instances, lower than nationally advertised brands. A typical list of such items at retails in A&P stores commonly charged in the Toronto area is attached hereto as Appendix C.

(*See Appendix "C" following this text.*)

SPECIALS:

Our policy in the selection of specials depends to some extent on the availability of supplies and on seasonal situations. This is particularly true of fruits and vegetables. We also participate fully in government programs where

our assistance is sought to help the consumption of plentiful foods. In addition, we include in our advertisements many listings of foods of excellent value to help the consumer round out her shopping list.

MARKUP:

We use percentage markups in establishing our retails.

STATEMENT OF SALES AND PROFIT (AFTER TAXES) 1961 TO DATE:

This information is considered to be confidential and has been given to the Co-Chairman.

TREND OF PERSONNEL, OPERATING AND MAINTENANCE COSTS 1961 TO DATE:

This information is considered to be confidential and has been given to the Co-Chairmen.

Co-Chairman Senator CROLL: I should like you to stop there.

As you can see from the brief, we have a question raised on the confidential information which has been provided both to Mr. Basford and myself. The committee has a decision to make on this matter. I would like you to address yourselves to the problem of providing confidential information to the committee.

I think Mr. Perley-Robertson will speak on behalf of the company first.

Mr. PROVOST: I will be very pleased to, Mr. Chairman. As you know and I am sure you gentlemen must realize, in providing some of the information called for we treat it as confidential. We certainly would not want this information to become known to our worthy competitors. I am quite sure you can appreciate this and, as I said, we have been very pleased to supply full details to the co-chairmen, and we would be very pleased to have further discussion in camera.

Co-Chairman Senator CROLL: Is there anything further that may be said?

I have just discussed the matter with my Co-Chairman, Mr. Basford. We are going to clear the room, and just members of the committee will remain while we discuss this matter amongst ourselves. You can put an "occupied" card on your seat, but everybody will have to retire, please. Only the members of the committee will remain.

The committee continued its deliberations in camera.

Upon resuming public hearing.

Co-Chairman Senator CROLL: I call the meeting to order.

I think I should make the committee's position quite clear in respect of the conduct of this inquiry into the rising cost of living.

The public interest requires that the fullest possible disclosure of information and documents relevant to the inquiry be made to the committee. The committee has complete powers of investigation conveyed to it by resolutions of each house of Parliament to "call for persons, papers and records," and it proposes to make full use of such powers in order that the committee, and thereby the Canadian people, may be informed, fully and in detail, of any factor or factors having relevancy to the subject of the inquiry.

I do not believe that the committee or its chairmen—and in this I have the complete support of all its members—should accept any written statement or document "in confidence". If such statements or documents are to be submitted to the committee they must be submitted with no strings attached. The public regards this inquiry as being of great importance, and it must be satisfied that no person or corporation is being protected, in respect of its competitive position or in any other respect, in such a way as to imperil its thoroughness.

The powers are there, and they were meant to be used in vital inquiries such as this.

Now, Mr. Provost, I must return to you the copies of the confidential information you have given to the co-chairmen. You can rest assured that we did not make use of them in any way at all.

I understand that Mr. Provost and his colleagues would like to retire for a few minutes in order to confer amongst themselves.

—A short recess.

Co-Chairman Senator CROLL: Will the committee come to order, please.

Mr. PROVOST: Mr. Chairman, to continue with the brief I will turn to that part headed "Comparison of Retail Mark ups". This shows a list of 30 commodities, showing our percentage—

Mr. SCOTT (*Danforth*): Mr. Chairman, I rise on a point of order. We have not had an answer in respect of paragraphs (f) and (g). I would be opposed to hearing these people any further at all unless we receive assurance that the information sought in paragraphs (f) and (g)—

Mr. PROVOST: The information will be provided.

Co-Chairman Senator CROLL: The reason I did not say so is that Mr. Provost said he would answer whatever questions were asked of him.

Mr. SCOTT (*Danforth*): Mr. Chairman, does that mean that the "Statement of Sales and Profit (after taxes;) 1961 to date" and the "Trend of Personnel, Operating and Maintenance Costs 1961 to date," will be provided in full?

Co-Chairman Senator CROLL: I understood Mr. Provost to say that they will answer the questions that we ask them.

Mr. SCOTT (*Danforth*): That is not the same thing, Mr. Chairman. How can we possibly ask intelligent questions if the statements are not provided in the first place? We would like to look at them, and have them, analyzed by competent accountants, and so on. How can we start up in the air? Either we have the statements or we do not.

Co-Chairman Mr. BASFORD: Mr. Scott, the witnesses have come here and made a presentation. The members of the committee are then entitled to ask the witnesses any questions they want. Any member of the committee is entitled to ask for a "Statement of Sales and Profits."

Mr. SCOTT (*Danforth*): Then, Mr. Chairman, what have we done in the last half hour? The presentation was interrupted. The chairman informed us that parts (f) and (g) had been provided in confidence. We then adjourned and had an *in camera* hearing to decide what our attitude was going to be. We have now informed them unanimously that we want this information. I do not see how we can proceed with this hearing at all without the assurance that the information itself will be laid before the committee. It is on the basis of that—yes, we can ask questions, but I do not see how we can proceed at all without this information being presented.

Mr. George Perley-Robertson, Q.C. (Counsel): Mr. Chairman, my thought was that we would answer questions, but if the committee feels this way then we will file the statements. But, we would say to the members of the committee that we would like them to keep the information to themselves, if they can.

Co-Chairman Senator CROLL: No, no.

Mr. SCOTT (*Danforth*): This is either a public hearing, or it is not.

Co-Chairman Senator CROLL: There will be no conditions attached to the statements.

Mr. PERLEY-ROBERTSON: We will submit the statements. Perhaps the members of the committee can ask questions without having the statements, but if they cannot then they will have them.

Mr. OLSON: Mr. Chairman, I rise on a point of order. We have, as a committee, made known to the witnesses that we will accept no statements in confidence, and that there will be no conditions attached to any other kind of information we seek, but then having said that, the witnesses—whether they are invited or summoned to these committee meetings—are entitled to say as much as they wish to say in their opening presentation, and we cannot stop them. I do not think this is a valid point of order at all. We cannot stop them part way through their presentation and say: "You are not putting as much in your opening statement as we would like you to put". Therefore, I do not think there is any point of order. They can continue with all of their presentation, or the parts that they want to present. When we get into the questioning, and if there is any further elucidation that we need on any other point, then the statement made a few minutes ago comes into force.

Mr. ALLMAND: Mr. Chairman, it seems to me that Mr. James sent out a request for a "Statement of Sales and Profit (After Taxes) 1961 to Date," and a "Statement of the Trend of Personnel, Operating and Maintenance Costs 1961 to Date," and in accordance with that request they were supplied to the co-chairmen. I agree with Mr. Scott in that we cannot really ask intelligent questions unless we have this information before us. I think we should make it an order of this committee that these be produced as soon as possible.

Co-Chairman Senator CROLL: We will continue, and let him finish his brief.

Mr. ALLMAND: I think he should continue with his brief.

Mr. SCOTT (*Danforth*): Surely, Mr. Chairman, if it is not confidential now it should be tabled. The documents are here right in front of you gentlemen. They are right at your left hand, and surely they should be tabled.

Co-Chairman Senator CROLL: I am sorry, Mr. Scott, I did not hear you.

Mr. SCOTT (*Danforth*): I say that according to our understanding of (f) and (g), which were given to yourself and your co-chairman in confidence, you gentlemen have agreed to make them available, and I think at this point they should be tabled.

Co-Chairman Senator CROLL: Mr. James sent copies of the suggested topics for discussion on retail foods, and the first copy was a history of profit since 1960. The first one who asks—and if no one asks I will—will get the information, because they say they will not refuse to answer.

Mr. SALTSMAN: Mr. Chairman, I respectfully suggest that it would be of considerable advantage to this committee and perhaps set a very valuable precedent if the witnesses who are appearing before us today would willingly put these things on the record. I for one will certainly ask everyone else who appears to do the same thing.

Co-Chairman Senator CROLL: Let him continue with the brief. Go ahead, please.

Mr. SCOTT (*Danforth*): Mr. Chairman, I am sorry to be persistent, and I apologize to the committee, but I am at a loss to know what we can do. You say we will continue with the brief and then ask questions. How are we going to ask questions on a statement of profit and loss, or about personnel, operating and maintenance costs, without the statement in front of us?

Co-Chairman Senator CROLL: The statement he has available here will require study by you. You can take my word for that, because I have seen it, that it will require study by you before you can really ask intelligent questions on it. That is why I suggested they should return to it.

Mr. SCOTT (*Danforth*): Are those statements now tabled before the committee?

Co-Chairman Senator CROLL: Not at the moment.

Mr. PROVOST: Table them.

Co-Chairman Senator CROLL: All right, they are tabled. The statement entitled "Personnel, Operating and Maintenance Costs 1961 to Date" and the "Statement of Sales and Profit (after taxes) 1961 to Date," are both tabled.

PERSONNEL, OPERATING AND MAINTENANCE
1961 TO DATE

	Percentage of Sales
1961	.1327
1962	.1355
1963	.1370
1964	.1392
1965	.1402
1966 (31 wks)	.1393

STATEMENT OF SALES AND PROFIT (AFTER TAXES)
1961 TO DATE

	Sales Annually (000)	*Profit After Tax* %
1961	$ 195,219	.0127
1962	195,946	.0150
1963 (53 wks)	216,494	.0160
1964	216,604	.0192
1965	218,390	.0234
1966 (31 wks)	139,311	.0214

Co-Chairman Senator CROLL: Go ahead, please.

Mr. PROVOST: I was on the subject of a comparison of retail markups. This is a list of 30 commodities. If it is the wish of the committee I will read them one by one; otherwise I will explain what they are. You have them before you.

Co-Chairman Senator CROLL: Before you read them one by one, will the members make notes, if they want to follow you?

Mr. PROVOST: Incidentally, gentlemen, this is taken from a typical week in the month of September during what we term the critical period when food prices were under considerable discussion. A quart of milk in 1965 retailed at 24 cents; percentage of profit .1458. That is a decrease of .0162 per cent over 1964.

Mr. URIE: Is this 1965 or 1966?

Mr. PROVOST: I am giving the prior period, gentlemen. I will now give you the current period and the difference in the profit. A quart of milk retail, this is 1965, 24 cents, cost .1458. 1966 retail 27 cents, percentage of profit .1296.

A pound of butter, Silverbrook, our own brand, in 1965, retail 63 cents; percentage of profit .0750 or 7½ per cent. In 1966, retail 67 cents; percentage of profit .0417. Sunnyfield butter, 1965, retail 62 cents, percentage of profit .0419. Retail 1966, 68 cents, percentage of profit .0385.

Co-Chairman Senator CROLL: This is a long sheet, and you have it before you. All the information that was marked confidential is now available and will go on the record and it will provide an opportunity for you to study it; otherwise, you and the Chairman will be more confused than you are now.

Mr. SMITH: On the confidential page entitled, "Comparison of retail mark-ups" as against "Commodity," there is given the percentage of profit from previous years. The percentage given is the decline in profit or decline in percentage profit from 1965 to 1966 in each of those items. Is that assumption correct?

Mr. PROVOST: That is correct. That is the column that is headed up "Plus or minus" for the previous year.

Mr. SMITH: The brief does not give it in plus or minus.

Mr. PROVOST: Percentage of profit plus or minus for the previous year.

On the subject of promotional devices such as trading stamps and games, we have no experience in the use of trading stamps, games or special promotions and therefore we do not feel qualified to comment.

On the subject of comparison of raw or semi-processed foods versus convenience foods, it is very difficult to compare the cost of raw or semi-processed food with processed foods as the answer is dependent on many unknown factors. In this connection, however, let us state that we carry many convenience foods due to the consumer's demand, but we also give her full choice and she may buy the basic ingredients to enable her to start from scratch to produce spaghetti and meat balls, Irish stew, a casserole, a pie or a cake—the choice is hers.

On the subject of competitive prices: In order for us to keep abreast of the retails of our competitors, price checking is done in their stores regularly. As an example we are attaching Appendix "D", a recap of a recent price check.

(*See Appendix "D" to the proceedings of this date*)

Finally, the role of the independent grocer: There is always a place in our industry for an alert competent merchant, whether he be an independent or a chain. We observe excellent Independent operators in our territory.

We appreciate the concern of this committee in inquiring into the cost of food. We too have an intense interest and in fact have dedicated our lives to A&P's basic policy of providing the most good food for the least amount of money.

We thank the committee for the opportunity of appearing.

Senator THORVALDSON: Mr. Chairman, I would like to ask for an explanation about Appendix "C", from Mr. Provost. What is that intended to do, to show? Is that intended to show the difference in price between nationally advertised brands and others?

Mr. PROVOST: Senator Thorvaldson, this Appendix "C" is in reply to question No. 10 from the Special Assistant to the committee, which reads:

> The extent to which you use your own branded products and what price differentials there are between your own brands and other standard brands.

We have indicated here a list of A & P brands and the retail price. We have shown nationally advertised brands "A" and "B". It was not our purpose to disclose those brands for the possibility of embarrassing some nationally advertised company, but if it is the wish of the committee we will be glad to read them off.

Mr. SMITH: The first column is your own brand?

Mr. PROVOST: The first item reads "Evaporated Milk, 16 ounce". This is a can of A & P evaporated milk which we retail at four for 59 cents. The nationally advertised brand "A" sells the same quantity, the same tin, at two tins for 37 cents. Brand "B", which is another leading brand, sells three tins for 46 cents. I might make that a little more clear by saying that a unit of our own would be

15 cents, Brand "A" would be 19 cents, and brand "B" would be 15⅓ cents or if you purchased one can, 16 cents.

We can go on from there. All of these items are A & P private brands, and it shows the differential.

Mr. SALTSMAN: Could we have them identified?

Mr. PROVOST: Brand "A" is Carnation, 16 ounce. Brand "B" is Libby's, 16 ounce.

Mr. SALTSMAN: Could we ask the witness how he arrived at this—are they identical in quality?

Mr. PROVOST: The quality and size are identical.

Mr. SALTSMAN: Are they made by the same company as make the national brands?

Mr. PROVOST: This I cannot answer.

Mr. SALTSMAN: Is this because you do not know, or because you do not wish to answer to the committee?

Mr. PROVOST: I would say that Carnation make their own milk—where it is made I am not aware, nor am I aware where Libby's is made. Our own milk is produced for us by the Granby Co-op in Granby, Quebec.

Mr. MANDZIUK: How recent are these prices? Are they as of today?

Mr. PROVOST: As of Wednesday, when this brief was prepared.

Mr. MANDZIUK: Would they apply to all your stores, the whole chain in Canada? Is there a difference as to the location?

Mr. PROVOST: These retails apply to the metropolitan Toronto area. They could conceivably vary, and where there is a variance, this depends on distance from our warehouse and transportation costs.

Mr. SMITH: But generally speaking, the same difference would apply from week to week? If one went up, the other would go up also? The differential between the prices would be roughly the same?

Mr. PROVOST: I am not able to say. Oh, yes, this is true. These are retail, sir, all across the board.

Mr. ALLMAND: With respect to mark-up, you said the mark-up was set in establishing your retails. May I ask what it is, what the percentage is?

Mr. PROVOST: In all of these cases?

Mr. ALLMAND: Let us take butter, Silverbrook butter.

Mr. PROVOST: On a pound of Silverbrook butter, on this particular item, the markup would be 0417—slightly in excess of 4 per cent.

Mr. ALLMAND: Previously you said:

> No suppliers from whom we buy are under our control.

Below that you state that you admit that you have your own brand of products.

Mr. PROVOST: That is correct.

Mr. ALLMAND: The company that produces these brand of products is the same company, is it, the same corporation?

Mr. PROVOST: Let me explain it this way, sir. The company who packs our A&P milk, for example, likely produces milk for others. So long as we are satisfied that they have a quality which comes up to our standards, we supply them with our labels, they label it for us. We have no control over this company.

Mr. ALLMAND: And you have no control over any companies that produce?

Mr. PROVOST: From whom we buy. This applies to canned peas, corn, tomato.

Mr. ALLMAND: Including your branded butter?

Mr. PROVOST: Right, sir.

Senator McDONALD: Could we return to appendix C for the moment? Would you be able to calculate evaporated milk, A&P brand, in one unit in your store? Is the 19 cents for Carnation milk in your store or in your competitor's?

Mr. PROVOST: In our store. I think I mentioned that all these retails are in A&P stores, as the question was asked, sir.

Mr. SALTSMAN: I would like to direct my questions to you regarding the problem between private brands and national brands. I was very interested in an advertisement placed in the *Evening Reporter*. The advertisement, I presume, was placed also probably entirely across the country. It says: "What is the definition of private brand?" In the body of the ad, you see: "Why not save money and be sure of what you buy, which is A&P".

I think this question of private brands is an important one for us to consider. I would like to direct some questions to you, to try to elicit some information in this regard.

To what extent do you consider that your private brands are equal quality with the national brands?

Mr. PROVOST: In this respect, sir, first, as you probably know, every can of merchandise sold on any grocer's shelves in Canada must bear a quality. The quality is there because it has been graded by a Government inspector. There are three grades. Standard quality is the lowest. There are some below this but we will not touch on those, because we never handle them. The middle quality is known as choice. The top quality is known as fancy quality. Each can bears a small circle which shows this. This deals with the quality aspect.

Mr. SALTSMAN: If we take the item in Appendix "C", tomato juice, fancy, 48 ounce, three for $1; as against 41 cents for nationally advertised brands —would there be any difference, any discernible difference to the consumer between your private brands and those national brands?

Mr. PROVOST: Would there be any discernible difference to the consumer?

Mr. SALTSMAN: Yes.

Mr. PROVOST: You are Mr. Saltsman?

Mr. SALTSMAN: Yes.

Mr. PROVOST: I am afraid that would be something that would be left to the taste of the consumer. If it is labelled fancy quality and it is in this case with our own and Bright's and Heinz, then it has been passed as fancy quality tomato juice by the Government inspector.

As to variance in flavour between them, it may mean a little more salt or a little less salt. I am not prepared to say whether the consumer could notice any discernible difference in the taste.

Mr. SALTSMAN: I have put this question to women shoppers because it has been my observation that there have been cases that the private brands are considerably less in some of the supermarkets than some national brands. Some of them seem to feel, however, that the higher quality is only available in the national brands, and not in private brands—that the value is good value but it is not the highest quality. I would like to have your comments.

Mr. PROVOST: We do not believe this, Mr. Saltsman. As I pointed out before, we take very particular care before we permit any processor to use our label. First of all, we satisfy ourselves that his facilities, his plant, is sanitary and clean and comes up to our standards. Then we certainly go along with the Government inspector's grading of the product. This satisfies us in most cases.

Sometimes the Government inspector may grade something "choice quality" but A&P standards are not exactly satisfied. We will gladly give him labels for this product and label them "standard quality".

When the merchandise arrives at our warehouse, Mr. Saltsman, we are very careful, too, to inspect possibly one case out of every ten. The tins are actually opened and must satisfy our buyers as to quality, appearance and all the things a knowledgeable buyer looks for.

Mr. SALTSMAN: Without asking for specific names, do you have experience with national brands and your private brands being made by the same processors?

Mr. PROVOST: No, sir. None of the producers of nationally advertized brands pack private label merchandize for A & P.

Mr. SALTSMAN: There was a news item which appeared in the Toronto *Telegram* on August 24, relating an incident of three large supermarket chains in the United States switching from national brands to private brands. The news item said that on the whole this had been beneficial to the consumer and that the prices had been reduced and the quality increased. I understand, however, that they are to be prosecuted because they are dominating the market too much.

Would you care to comment on this trend?

Mr. PROVOST: No comment, Mr. Saltsman.

Mr. SALTSMAN: Is there a trend within your own organization to increase the number of private brands?

Mr. PROVOST: Yes.

Mr. SALTSMAN: Would you give us some indication of the percentage of your sales which are now private brands.

Mr. PROVOST: Mr. Saltsman, I would only be guessing. I regret that I do not have this information.

Mr. SALTSMAN: Could you get it and supply it to us?

Mr. PROVOST: Yes, I can supply it.

Mr. SALTSMAN: I would appreciate it if you could make this information available, because this might be a useful avenue for this committee to explore.

Co-Chairman Senator CROLL: Mr. Provost said that the information will be supplied to the committee, Mr. Saltsman. Now, I want to give everybody an opportunity to ask questions. Mr. Olson.

Mr. OLSON: Mr. Chairman, I wanted to ask the witness some questions about the price of beef. I presume that your stores buy sides of beef and cut them in your stores for retail.

Senator THORVALDSON: Mr. Chairman, can we finish Appendix "C" first? I wonder if that would be preferable to going on to beef now? There are others who would like to ask questions on Appendix "C".

Co-Chairman Senator CROLL: You see, the difficulty is that it is very hard to exhaust a subject, I am trying to pass along and give everybody a little time. Perhaps we might just keep jumping from subject to subject for the moment. Go ahead, Mr. Olson.

Mr. OLSON: Yes, sir, your stores, of course, buy sides of beef and so on, and cut them and present them to the retail market in that way. Are you aware of the evidence that was given to us by the Department of Agriculture officials who were here giving us the monthly average price of choice steers on the Toronto market?

Mr. PROVOST: No, sir, I am not aware of that.

Mr. OLSON: I wonder. There are a number of examples that you could take, but I want to take, for example, June of 1965. The monthly average of choice

steers on the Toronto market was $26.86, and this went down to $26.06 for June of 1966. And yet the Dominion Bureau of Statistics finds that almost all these products went up substantially between June 1965 and June 1966.

I will read you some of the examples. Sirloin steak went up from $1.07.9 in June of '65 to $1.14.6 in June of 1966. Round steak went up from $0.95.2 to $1.1 in 1966. You can go through the entire list and you will find that there is an increase, including the price of hamburg, stewing beef, blade roasts and so on. Would you like to give us some kind of explanation from your point of view on why the retail prices went up, probably somewhere near 8 to 10 per cent, during that year, while the price of live steers on the Toronto market went down about 70c per 100 weight?

Mr. PROVOST: You are speaking about the month of June 1965 versus the month of June 1966?

Mr. OLSON: Right.

Mr. PROVOST: The prices you are quoting are livestock prices.

Mr. OLSON: The livestock prices I quoted to you were supplied to us by the Canadian Department of Agriculture, and the retail prices of these selected beef items were supplied to us by the Dominion Bureau of Statistics.

Mr. PROVOST: Well, to begin with, I am sure that you are aware that we do not buy direct from a livestock market. We buy our meat from packing houses.

Mr. OLSON: Right.

Mr. PROVOST: And I think, Mr. Piper, you have information here that you could supply to this gentleman, giving him the price we paid for red steer sides in the month of June, 1965, and what we paid in June of 1966.

Mr. H. W. Piper, Director, Meat Operations, The Great Atlantic and Pacific Tea Company, Limited: Yes, Mr. Olson, I would be very glad to do that. Our records show, and this is on the basis of red brand steers, that in the month of June, 1965, and I am going to quote an average—I have not got it worked out, but I can give it to you by weeks.

Mr. PROVOST: We can give it to you in four weeks.

Mr. OLSON: All right.

Mr. PIPER: For the fifth week of June it is 43½.

Mr. OLSON: Is this a side?

Mr. PIPER: We talk cattle, but it is exactly the same thing. 43½. If you follow along, this is by weeks. 44½, 45 and 46. That is for the first four weeks of June, 1965. The first four weeks of June, 1966: the first week, 45, the second, 44½, the third 44½ and the fourth 44. That ties up rather closely with what you quoted.

However, I would question the retail advance which you quoted. During the same period,—and I regret I have not got it by months—may I quote to you our beef retail gross structure differential?

Mr. OLSON: I am not quite sure what that is.

Mr. PIPER: I have not got enough detail to give you the breakdown, but just let me talk quarters to you. We talk in terms of quarters, and June is the second quarter. You have June, July and August. During that particular period, the cost increase in 1966, and this is our total beef classification, was 3 per cent higher than for 1965. Our retail increase was a 2¼ per cent increase.

Mr. OLSON: Well, from what you are saying, then, the suggestion is that these average retail prices taken by the Dominion Bureau of Statistics probably do not fit your operation as an average, then.

Mr. PROVOST: Sir, I am not prepared to say that, but I would want to see what class of cattle they were basing these retails on. If they took it on a complete market or confined it strictly to the type of meat we buy and sell, then, ours should be very close.

Mr. OLSON: Well, "choice steers" comes out in the product that you buy as "red brand beef," does it not?

Mr. PROVOST: That is correct.

Mr. OLSON: Almost invariably, except for bruises and other things that they may find after the slaughtering is done?

Mr. PROVOST: Yes, sir.

Mr. OLSON: There was a slight decline between these two months, and yet, when I look over your prices that you just gave me as a comparison between June of 1965 and June of 1966, with the exception of the first quarter, it is pretty consistent.

Mr. PROVOST: Remember that you are talking on a livestock basis. I am talking on the dressed meat cost to us.

Mr. OLSON: Yes, I understand that. But as far as this committee is concerned, or at least as far as I am concerned as a member of this Committee, this relationship between livestock prices and red brand sides, or whatever you want to call them, remains pretty consistent from one year to the next, does it not?

Mr. PROVOST: I am sorry, but I cannot answer that.

Mr. OLSON: Well, Mr. Chairman, I think they have answered the question to some extent, but we will have to look into this further. If they claim that these increases, in the neighbourhood of about 10 per cent, that the Dominion Bureau of Statistics has found are not applicable to their operation, we will have to have a look at some other other people's retail prices for some of these comparable periods. I am going to pass now, but the same argument can be made for the price of pork. Grade "A" carcasses and hog prices were given to us. So far as the retail prices are concerned, there does not seem to be a corresponding movement in the retail prices as compared with the prices paid for live hogs. Therefore I would like to ask the witness this question: Have you noticed a consistent movement on your wholesale prices and consequently, I presume, your retail prices with what happens in livestock markets so far as price is concerned? Is there an immediate reaction in the price you pay for beef and pork products as it relates to the movement of the prices in the livestock market?

Mr. PIPER: Not necessarily so. It is pretty generally true. It is a daily marketing situation.

Mr. OLSON: When you say "not necessarily so," is there any reason why these wholesale prices do not follow the prices paid to the producers?

Mr. PIPER: There could be several. One could be the demand and supply on the part of the consumer, or it could be seasonal or it could be because of inventory positions on the part of the packer and possibly on the part of the retailer.

Mr. OLSON: I am not quite sure what you mean by all these variables. What do you mean by "seasonal" and why would that interfere with the direct relationship being constant?

Mr. PIPER: If it were the middle of August, and if we had cool weather and if it suddenly became 90° in the shade we would not sell nearly as much pork products as we would in cooler weather.

Mr. OLSON: Are there many factors consistent from one year to the next? Or is it only sudden changes in climate that affect it?

Mr. PIPER: I would suggest possibly a sudden change. There is always a change in consumption of certain products by seasons. Certainly it has been historical in the meat business that we sell more of certain products in cooler weather than we do in warmer weather.

Co-Chairman Senator CROLL: Mr. Leblanc.

M. LEBLANC (*Laurier*): Pourrais-je poser une question en français, étant plus familier avec cette langue? Est-ce que la traduction simultanée est en fonction? Merci.

Alors, je suis surpris, d'ailleurs, que M. Provost soit obligé d'écouter la traduction parce que son nom est tellement français. Je suis surpris d'une autre chose: c'est que la compagnie A & P ait produit sa présentation ici seulement en anglais. J'en suis complètement désappointé. De plus, je regrette que M. Provost nous donne ses commentaires seulement en anglais.

Mr. PROVOST: To this I can only say that I apologize and we will be very pleased to have a French translation made of the entire brief and made available to the Committee with as little delay as possible. As far as the name being so long in English is concerned, I am afraid I can do nothing about that.

M. LEBLANC (*Laurier*): Une autre question, monsieur le président. Vous mentionnez, au début de votre bref, ici, que vous avez 196 magasins, or retail outlets; est-ce que je pourrais savoir combien de magasins vous avez dans la province de Québec?

Mr. PROVOST: We have 35 retail outlets in the Province of Quebec, Mr. Leblanc.

M. LEBLANC (*Laurier*): Quel rang occupez-vous dans le pays comparativement à vos compétiteurs qui sont des magasins à chaîne et dans le même commerce que vous? Êtes-vous en première, en deuxième ou en troisième position? Par exemple, êtes-vous avant Loblaw ou après? Sans mentionner de nom, quel serait le rang d'importance de votre organisation au Canada.

Mr. PROVOST: Unfortunately, we rank fifth.

M. LEBLANC (*Laurier*): Maintenant, monsieur le président, est-ce que l'on pourrait savoir approximativement, évidemment, le pourcentage des ventes, par rapport aux ventes nationales, qui sont faites dans la province de Québec par votre magasin?

Mr. PROVOST: Approximately 20 per cent.

M. LEBLANC (*Laurier*): Maintenant, une autre question,—une dernière, monsieur le président,—est-ce que votre «Mark up», ou votre marge de profit brut, soit sur la viande, soit sur les autres conserves, est plus fort dans la province de Québec que dans les autres provinces, étant donné que tout à l'heure, vous avez mentionné qu'il y avait une différence dans votre pourcentage brut; alors, s'il y a une différence entre votre pourcentage brut, il doit certainement exister une différence entre les provinces?

Mr. PROVOST: I would venture to say, Mr. Leblanc, that our percentage of markup in the Province of Quebec is very much the same as it is in the Province of Ontario.

Mr. LEBLANC (*Laurier*): Je vous remercie, monsieur.

Co-Chairman Senator CROLL: Senator Thorvaldson.

Senator THORVALDSON: Mr. Chairman, I would like to turn back to (c) and ask two or three questions about that. I will preface my questions by expressing surprise at the big differential there seems to be in certain items, and I refer first of all to coffee where there is a differential of approximately 30 per cent in your own brand and the nationally advertised brands. That is a big difference. Could we have any explanation as to the reasons for such a wide margin, or is

that the whole story we are trying to find out in this inquiry? Consequently I ask the question with regard to that one item. Is it a question of advertising? Is it the advertising of national brands that pushes the prices up in this way or is there another factor?

Mr. PROVOST: First of all, it is our own private brand of coffee. It is put up for us under our own specifications by a firm in Ajax. We think we have a splendid brand of coffee and we are satisfied with our markup at 89 cents. We believe it to be comparable with Chase & Sanborn or Maxwell House Instant Coffee.

Asking about the nationally advertised brands carrying perhaps more selling expenses, this could be true. I am not prepared to say.

Senator THORVALDSON: Would you particularize in regard to selling expenses? Would most of that be in national advertising and so on?

Mr. PROVOST: Here again, senator, I am not familiar enough with their operations. As a matter of fact I am not at all familiar with their operations. I would judge it would be partly advertising expenses and partly production expenses. This is only an assumption on my part.

Senator THORVALDSON: I will come to another item, where the differential is very nearly 30 per cent—between 25 and 35 per cent. Salad dressing, 16-ounce. Your price is 35 cents and the nationally advertised brands' price 45 cents. Is there a difference in quality?

Mr. PROVOST: I do not think so, senator. We think, again, we have an excellent product. These are tested by our own people who are more expert at this sort of thing than I am. It has wide acceptance, and I would have to assume the general public consider the A&P salad dressing at 35 cents as good a product as either Hellman or Kraft at 45 cents.

Senator THORVALDSON: I would like to ask the same question with regard to Sail soap powder, king. Your price at A&P is $1.29 and the other nationally advertised brands $1.89 and $1.83. I wonder how there can be such a differential?

Mr. PROVOST: Here again, senator, this is a soap powder which is put up for us by a firm in Canada to our specifications. It is the same size as Omo and Tide. Why Omo kingsize is $1.89 and Tide is $1.83, it is pretty hard for me to say. Maybe tigers come pretty high.

Co-Chairman Senator CROLL: Senator Thorvaldson, we are going to have the brand people before the committee.

Senator THORVALDSON: I think this might be a fair introduction.

Consequently, I wanted to ask this question also. Let us refer to Sail soap powder, king. Can you tell us that is the proportion of your sales in your own stores, namely of your own brand and the nationally advertised brands?

Mr. PROVOST: It would be rather small, senator, because there are so many advertised brands, the list would be as long as your arm. We have one size. I would not care to hazard a guess as to what the percentage is of Sail detergents as compared to the total of all advertised brands. There are many sizes and brands. We would only be guessing, sir. If you would care to have this information, if it is of value, we will try and get it and provide it for you.

Senator THORVALDSON: I think my next question will be of greater value. Can you tell us the percentage of A&P brands that you sell in relation to nationally advertised brands; that is, in your turnover?

Mr. PROVOST: I believe this question was asked over here by another member, Mr. Saltsman, and we have made a note to provide this information with as little delay as possible. I am sorry I do not have it here now.

Senator THORVALDSON: Have you made any rough calculation as to the percentage of reduced cost in A&P brands vis-à-vis the nationally advertised brands you have listed on appendix "C"?

Co-Chairman Mr. BASFORD: Mr. Provost, the August edition of *Canadian Grocer* outlines the expansion program of your company as being an aggressive sive expansion program with 15 stores, et cetera. I am interested in how you finance that expansion.

Mr. PROVOST: Out of our surplus funds in Canada.

Co-Chairman Mr. BASFORD: How do you arrive at the surplus funds?

Mr. PROVOST: On the profit we make from the business we do.

Co-Chairman Mr. BASFORD: Most businesses, or any that I have been associated with, if they wanted to expand they had to go and borrow money or raise it on the capital market. I am concerned whether paying for expansion programs—which for all the chains have been very substantial over the last year or so—out of operating income is not contributing to the increased cost of food.

Mr. PROVOST: Let me assure you, first of all, Mr. Basford, that we do not borrow money; therefore, we have no interest rates to pay. Our expansion program is financed out of our own surplus, as I mentioned a little while ago. We are very plain people at A&P; we are pennypinchers; and when it comes to expanding, let me assure you that we do not, for the sake of expanding our business, go out and pay fancy prices for land or facilities.

Co-Chairman Mr. BASFORD: I think if we looked over the whole of industrial or manufacturing businesses in Canada, it would be a very unusual situation where expansion was financed out of surplus, which seems to be characteristic of the food chains.

Mr. PROVOST: I do not follow your question, Mr. Basford.

Co-Chairman Mr. BASFORD: Then I will go back. Most normal businesses, I would think, finance their expansion out of other than surpluses; and this would appear to be a characteristic of food chain companies, not only your own, that expansion is financed out of surplus. It would indicate there must be an unusually large amount of surplus in order to finance the very huge expansion programs that the chains are undertaking.

Mr. PROVOST: I think reference to our net profit after taxes will indicate to you there is not that margin of profit in our industry.

Co-Chairman Mr. BASFORD: What is the expected cost of your 1966 expansion program?

Senator THORVALDSON: Mr. Chairman, is this relevant to this inquiry? These are capital costs.

Co-Chairman Senator CROLL: Let us see the point.

Mr. PROVOST: I am just mulling this one over.

Co-Chairman Senator CROLL: Fine, take your time.

Mr. PROVOST: If I have to answer this question, Mr. Basford—and I do so reluctantly because, here again, this is something which I would not care to have our competitors learn, and I think this is a fair rejection on my part—there are various sizes of stores, land costs vary and there are many variables. If I were to say we have 15 stores planned and each one would be in the neighbourhood of $200,000, I could be out one way or the other.

Co-Chairman Mr. BASFORD: I would like the answer, if possible, Mr. Provost. I can give you the assurance that I want to ask the other chains who come before us the same question.

Mr. PROVOST: Would you again permit me to put some figures together and send them?

Senator THORVALDSON: Is it important enough?

Co-Chairman Senator CROLL: We have reached an agreement here, and the problem has been solved for the moment.

Co-Chairman Mr. BASFORD: The other question is a brief one. We are all concerned, as you say in your brief, about the rising food costs. The brief does not really tell us what has been the cause of these rising costs. Can you tell the committee what the cause of rising food prices is?

Mr. PROVOST: When we consider, Mr. Basford, that in the overall in the past six months our total operation shows a markup roughly three-quarters of 1 per cent lower than a year ago, I cannot see how I can present you any argument that food costs are up at A&P.

Co-Chairman Mr. BASFORD: Let me rephrase the question. The food component of the consumer price index for the last year has certainly gone up, and I am wondering whether you are able to give the committee the benefit of your experience in the food business as to what has been the cause of that increase. I am not suggesting by my questions that it is A&P who has caused it, but one so closely connected with the industry as yourself might possibly, I thought, have some explanations for those increases.

Mr. PROVOST: Well, I certainly do not hold myself out as an expert in economic affairs. I am a businessman. I know that we have to pay more money for goods. I read in the papers that the costs of raw materials have gone up. Packaging costs have gone up. I know we, like any other company, have had to grant salary increases. We are not beset by labour problems, and I certainly do not wish to get into this. From my knowledge of the business all these are factors.

It seems to me that almost every time you turn around today you find the cost of everything has gone up—raw materials, processing, machinery, things you need to do business with, paper bags—well, you name it and you will find it has gone up. I am trying to make the point—and I will re-emphasize it—that we are not charging the public—as a matter of fact, we were charging the public less for their food in the first 31 weeks of 1966 than we were in 1965.

I think for you to get a better answer to your question, Mr. Basford, you will have to ask some of the primary producers or manufacturers. People come to us with a product, and we pay them the price they ask. We mark this merchandise up accordingly. I have tried to give you some indication of the make-up of the increased costs I have outlined, but I am not at all sure that this is accurate by any means.

Mr. SALTSMAN: May I ask a supplementary question, Mr. Chairman, just by way of explanation

Mr. PROVOST: I have here your "Statement of Personnel, Operating and Maintenance, 1961 to Date," and looking down the column I find that in that particular sector of your business the operating costs do not appear to have gone up very substantially from 1961 to 1966. Judging from the first 31 weeks of 1966 it seems that they will be lower in 1966 than they were in 1965. Is that an accurate assessment of this statement before us?

Mr. PROVOST: No, sir.

Mr. SALTSMAN: What is the meaning of this statement, then?

Mr. PROVOST: This comes about by an increase in sales.

Mr. SALTSMAN: That figure, then, of .1402 for 1965 and .1393 for the first 31 weeks of 1966 is a percentage figure of your gross sales for the equivalent period?

Co-Chairman Senator CROLL: Gentlemen, I return the witness to Mr. Basford. He has not finished yet.

Co-Chairman Mr. BASFORD: I take it that your answer is that the culprits in respect of rising food costs are not the chain stores?

Mr. PROVOST: I speak only for ourselves, Mr. Basford.

Co-Chairman Mr. BASFORD: You are not representing your competitors?

Mr. PROVOST: No, sir.

Senator CARTER: I would like to go back to the line of questioning of Senator Thorvaldson in respect of Appendix "C". I draw your attention to the fact that in respect of instant coffee your own A&P brand sells for 89 cents as compared with $1.33 for Brand "B". Do you have the same markup on all three brands, or does the markup vary?

Mr. PROVOST: I can answer this, Senator Carter, in a general way. I am sorry, but I do not have the costs in front of me; if I did I could be more specific. But, I will say this, that our percentage markup on Chase and Sanborn six ounce size, and Maxwell House of the same size, is a little less than it is on our brand of coffee.

Senator THORVALDSON: That is, the percentage markup?

Mr. PROVOST: Yes.

Senator CARTER: What puzzles me is, referring to the third line from the bottom, that you have your own brand of liquid soap selling for 45 cents for 24 ounces, and the same size of container of the other brands sells for 89 cents. As a matter of fact, the others are almost double your price. Now, liquid soap is a simple thing to manufacture. It is not a very complicated process, and the difference in cost could not conceivably be in the manufacturing process. Can you help the committee by giving us any idea as to how you can obtain soap and sell it for 45 cents, while the other people want 89 cents for their brands, and which must be, to all intents and purposes, exactly the same product. After all, soap is soap.

Mr. PROVOST: Here again, Senator Carter, we think we have a good product. It is manufactured for us under our specifications. At 45 cents we make a reasonable profit on it. Referring to the other two—well, they are very much in demand through advertising of one kind and another. They choose to sell it to us at a certain price, and as a result of this price we try to take a reasonable markup on the product, and the price happens to come out to 89 cents. In answering your question I can be no more explicit than I was in answering Mr. Basford's questions or Senator Thorvaldson's questions, as to why the wide spread in retail prices. Some people say it is not as good, but we do not believe that that is true.

Senator CARTER: I presume your own percentage markup is comparable on all three brands—that is, on your own brand and on the other two?

Co-Chairman Senator CROLL: What bothers me is why the consumers have not broken down the doors of the A&P stores.

Mr. PROVOST: We have wondered that very thing.

Co-Chairman Senator CROLL: I think I will give Mr. Urie an opportunity to ask some questions.

Mr. URIE: Mr. Provost, to proceed along the line that Mr. Basford was exploring, in your "Statement of Sales and Profit (After Taxes) 1961 to Date" is an indication that your total profits up to last year almost doubled over the net profits, after taxes, for 1961, and they are holding up reasonably well, apparently, this year. How does that jibe with the statement you made—or, which I think you made—that your percentages of markup have not varied, and the costs to the consumer are not any greater, relatively speaking, than they were before?

Mr. PROVOST: They were pretty lean in 1961, Mr. Urie.

Mr. URIE: How were they in relation to the two or three years before 1961? Have you any figures for the ten years prior to 1961?

Mr. PROVOST: I do not have them, sir.

Mr. URIE: I see. Would it be possible to obtain those figures?

Co-Chairman Senator CROLL: Let us stay with this for the moment.

Mr. URIE: From 1961 up to date there has been a steady increase in your net profits after taxes. I might point out to you, while you are thinking about that, Mr. Provost—

Senator THORVALDSON: There has been a big increase in the volume of sales in those years, and every one knows that when you increase your sales by, say, 10 per cent—

Mr. URIE: This may be the answer, senator. I am just asking the witness.

Mr. PROVOST: Mr. Urie, I would have to say that the increase in our profits after taxes in the years—let us take from 1962 to 1966—is partially from a sales increase arising out of an expansion program, plus the fact that we have invested some of our surplus funds in hydro bonds and made an important profit of this which we didn't have in earlier years.

Mr. URIE: Surely, the profits after taxes related to sales only do not include your income from investments, do they?

Mr. PROVOST: They do, sir. Now, on our store operation, they are considerably less than this. Here again I would have to provide these figures for you because I do not have them.

Mr. URIE: I wonder if you might do that, sir.

Mr. SALTSMAN: I have a supplementary question dealing with the financial attitude. We had before the committee a number of people discussing the effective interest rate. To what extent does the rising level of the interest rate affect your corporate position? Does the effective interest rate in the market affect you?

Mr. PROVOST: I do not think so, Mr. Saltsman. We would not consider investing our money anywhere else but in this type of paper that I have mentioned. For example, it is conceivable that we could obtain 7½ per cent interest in other fields as opposed to the yield we receive on investments in this type of paper that I have been talking about. We would not consider anything else. Would that answer your question?

Mr. SALTSMAN: Yes.

Mr. URIE: I turn now to another area which I know is of great interest to the committee, that is, one in which your firm has stated it does not deal, namely, that of trading stamps, bonuses, premiums and that sort of thing. Many of your competitors do indulge in those practices, and you are one of the few not to do so. If I may ask you, why has your firm not done so?

Mr. PROVOST: Because we have felt that we could do business without them by keeping our prices low and offering the consumer the best kind of a deal without what I might term a frill.

Mr. URIE: Do you feel that having these frills does add to the cost of the merchandise to the consumer? Is that one of the reasons you have not entered into the practice?

Mr. PROVOST: It is too bad you could not have asked that question a little later on, because I am sure you could get an answer from others.

Mr. URIE: That is why I am asking you first.

Mr. PROVOST: Here again, I would only be hazarding a guess. I must presume that there is a cost.

Mr. URIE: You would go one step further I think, in fact, would you not, that this is probably the basic reason you have not entered into the deal, the matter of cost?

Mr. PROVOST: I think there could be another reason stated, and that is that if we went in for trading stamps, since everybody else has them we would have no advantage.

Senator THORVALDSON: I have one supplementary question. First I will ask you, is your parent company in the United States, or world wide, publicly owned or privately owned. For instance, is your company stock listed on the exchange, and so on?

Mr. PROVOST: The company stock of the Great Atlantic and Pacific Tea Company is quoted on the big board in New York.

Senator THORVALDSON: Secondly, what is the policy of your United States company in regard to trading stamps?

Mr. PROVOST: In some parts of the country they have them, and in some parts of the country they do not.

Senator THORVALDSON: But in Canada you do not?

Mr. PROVOST: This has been our position in Canada; we do not have them.

Co-Chairman Senator CROLL: In following that, you are the only one of the large chains which has not got them?

Mr. PROVOST: That is not quite correct, senator.

Co-Chairman Senator CROLL: Then tell me what is correct.

Mr. PROVOST: One of the large chains in the Toronto area does not have trading stamps. In the Province of Quebec they all have them.

Co-Chairman Senator CROLL: We are informed, and I think the evidence will come a little later, that it adds approximately two per cent to the cost of the product. Will you agree to that?

Mr. PROVOST: Well, senator, I cannot agree, because I do not honestly know. However, I can say this, that I think it is common knowledge to anyone who reads grocery periodicals and the newspapers, this figure of two per cent I think has been mentioned several times.

Co-Chairman Senator CROLL: More than several.

Senator CARTER: This is a supplementary. Although you do not deal in trading stamps, and so on, do you not accept the gimmicks that come with the packages, and so on?

Mr. PROVOST: We do. This is the only way they are packed and offered to us. If we did not accept them as they are we would not have them, such as towels, and premiums and that sort of thing. This is common practice.

Mr. CHOQUETTE: So that you will get the idea that we have a bilingual Parliament, Mr. Provost, may I ask you a question in French, to show you that we have an impression about these matters in French?

Mr. PROVOST: Certainly, sir.

Mr. CHOQUETTE: Even if the impression is wrong.

Mr. PROVOST: Could I have your name, sir?

Mr. CHOQUETTE: My name is Choquette. I am not related to the senator, but he is a good friend.

Monsieur Provost, la question que je voulais vous demander est peut-être hors d'ordre; c'est la première journée que je siège sur le Comité, et je suis un peu confus devant la procédure qui est suivie. Je voudrais vous demander, d'abord, quel est votre budget de publicité? Est-ce que nous pouvons le connaître?

Mr. PROVOST: Mr. Choquette, I am as confused by these proceedings as you are, it being my first appearance. In relation to our sales, our advertising budget would be considerably less than one per cent.

M. CHOQUETTE: Quand vous me dites environ un pour 100, cela couvre toute la publicité qui pourrait être faite pour la télévision, la radio, la presse, pour les circulaires, ou n'importe quel autre mode de publicité auquel les grandes firmes commerciales ont habituellement accès; enfin, le budget global de votre publicité, dites-vous, est d'environ 1 pour 100?

Mr. PROVOST: Mr. Choquette, this embodies newspaper advertising, signs, circulars, radio. We have no TV. The whole ball of wax—that is it.

M. CHOQUETTE: Maintenant, une autre question, monsieur Provost, et cela touche un détail publicitaire, cette fois: là, il y a quelque chose de plutôt révoltant, et je me demande si vos magasins emploient un mode publicitaire pour, ni plus ni moins, induire en erreur le consommateur, car on voit souvent sur des boîtes—il s'agit plus souvent de détersifs—en anglais surtout «29¢ off,» 29 sous de moins, 45 sous de moins; je me demande si vous tolérez cette pratique dans vos magasins? Quant à moi, c'est une supercherie.

Mr. PROVOST: Unfortunately, Mr. Choquette, whether we like it or not, this is the way the product is presented to us. You made specific reference to detergents. We do not put the stickers on the box that calls for 15 cents or 29 cents off. I can say this, that the price we have on our shelves is the price after the 15 cents or 29 cents is taken off. We have no control on them. I have no comment as to whether we condone it or otherwise.

Mr. KENNEDY: May I add that it is our policy to make sure that a retail has been established on the part of the manufacturer before they bring it in and before we will accept from them a cent-off deal. In other words, the 29 cents that they put on the package must be an honest 29 cents reduction.

M. CHOQUETTE: Voici. C'est que, là où je veux en venir, c'est ceci: probablement qu'une action concertée de la part des grands magasins à chaîne pourrait empêcher cette publicité-là, qui est, ni plus ni moins, un mensonge flagrant. Car, lorsqu'on annonce un produit pour vingt-cinq cents de moins, ou quarante-cinq cents de moins, ça ne peut pas se faire, comparativement aux autres produits qui se vendent à peu près le même prix, mais qui n'ont pas de «stickers», de collants. Alors, à ce moment-là, est-ce qu'il pourrait y avoir de la part d'une grande firme comme la vôtre, une action courageuse de franchise pour supprimer ce mode de publicité qui, ni plus ni moins, ne fait qu'induire le consommateur en erreur en lui donnant un prix alléchant comparativement au prix qui doit être normal? Alors, je me demandais si vous accepteriez d'avoir le courage de combattre cette forme de publicité-là, ce qui vous rendrait peut-être plus sympathique auprès des consommateurs.

Mr. PROVOST: I am pondering this, Mr. Choquette. It seems to me that, now that the large manufacturers of detergents and soap powders, etcetera, will have heard this question, no doubt they may take an initial step to do this. I would hesitate very much to say that I will get up on a white horse at this point and lead a crusade to have the stickers removed. You have a good point. I think

that generally the consuming public would rather have a product without this type of promotion. However, I am not in the soap business and I have no desire to incur the wrath of Mr. Procter or Mr. Gamble. I am merely stating a personal opinion.

Co-Chairman Mr. BASFORD: Mr. Procter is coming before the committee.

Co-Chairman Senator CROLL: May I follow that for a moment. I am not going to tell you where this came from, but a check made last week in one of the supermarkets indicated that there was for sale, by these weights:

lbs.	ozs.
5	$3\frac{1}{2}$
4	6
2	12
2	10
2	7
1	5
1	4
1	2
5	
4	

Do you think the consumer, be she college graduate or mathematician, understands this sort of thing? Does that give her an opportunity to make some comparison shopping?

Mr. PROVOST: I am sure she would find it most difficult, senator.

Co-Chairman Senator CROLL: Could this happen in one of your stores?

Mr. PROVOST: Not with our own products.

Co-Chairman Mr. BASFORD: As a supplementary, would you favour, Mr. Provost, as a retailer, the standardization of packaging and the standardization of sizes?

Mr. PROVOST: Yes.

Co-Chairman Mr. BASFORD: Thank you very much.

Mr. URIE: Does the lack of standardization contribute very materially, do you think, to the cost of the ultimate product to the consumer?

Mr. PROVOST: I do not think so, Mr. Urie. All packages must contain a statement of weight and content, of some kind. I hope that Mrs. Consumer can read this and, even though comparisons might be rather difficult to make, if she really wants to make them I believe she can, difficult as it might be.

Mr. SMITH: Between other brands, and ounces, in toothpaste, for example?

Mr. URIE: If Procter and Gamble had five different sized packages, where really they could have three, to enable the consumer to compare, that surely would reduce costs, would it not?

Mr. PROVOST: Here again, Mr. Urie, you are asking me questions that a manufacturer would be far better qualified to answer.

Senator O'LEARY (*Antigonish-Guysborough*): Mr. Provost, I know you will be happy to know that I am interested in your A&P products. Perhaps you have already said this—approximately how many A&P labelled products do you purchase and sell?

Mr. PROVOST: I have not said it, but it is in the vicinity of 110.

Senator O'LEARY (*Antigonish-Guysborough*): On Appendix "C" you have listed a selected 29 items. Are all of those purchased from Canadian purchasers—those 29?

Mr. PROVOST: Apart from three items, Senator O'Leary, they are all bought in Canada, the exceptions being tea, of course, which comes from Ceylon, India; frozen orange juice, which comes from Florida; and raisins from Florida. I do not see anything else.

Mr. RYAN: All your bacon comes from Canada?

Senator O'LEARY (*Antigonish-Guysborough*): Of the total of approximately 110—I do not want you to list them but approximately what percentage of these would be Canadian purchased?

Mr. PROVOST: This falls within the realm of a question I have been asked twice, along those lines, as to what percentage our private brands are in relation to our total business. I do not have figures for that.

Senator O'LEARY (*Antigonish-Guysborough*): I do not agree. This is an entirely different question. What percentage, out of the 110 A&P labelled brands, are purchased in Canada?

Mr. PROVOST: A great percentage, senator—95 perhaps. Possibly more, possibly less.

Senator O'LEARY (*Antigonish-Guysborough*): Thank you.

Co-Chairman Mr. BASFORD: Could we have supplied separately—it would take too much time to do it now—the names of the national brands in columns "A" and "B". We will have a lot of the national brands in front of us.

Mr. PROVOST: Appendix "C", in the form in which I have it, Mr. Basford, will be supplied.

Mr. SALTSMAN: I have a question.

Co-Chairman Senator CROLL: Mr. Smith is next.

Mr. SALTSMAN: Mr. Reid Scott has had to leave.

Mr. SMITH: When you say, "No suppliers from whom we buy are under our control", I presume that statement refers to control by ownership or stock ownership. Are you such a big buyer from your suppliers that you exercise indirect control over them?

Mr. PROVOST: No, sir.

Mr. SMITH: In the case of the company from which you buy your bread, for example, are you so important to that company that you would be able to dictate prices and quality to them?

Mr. PROVOST: Section 498A of the Criminal Code takes care of that.

Mr. SMITH: Then in relation to the American parent company, do they exercise any control over your purchases of tea and coffee and frozen orange juice and imported items such as those? Are you required to buy coffee beans, for example, from any particular company?

Mr. PROVOST: We have, within our company, a service division which takes care of our purchases of raw coffee in South America.

Mr. SMITH: Is that the only item?

Mr. PROVOST: We have a tea buyer. We have field officers throughout the United States, in areas where we require to purchase citrus juices, pineapple juices and things of this nature. They do this buying for us.

Senator THORVALDSON: When you say "we" you mean the United States company and you, the whole group together?

Mr. PROVOST: That is right. We avail ourselves of their services.

Mr. SMITH: But, the quality and price are still the criteria.

Mr. PROVOST: Prices are a prerogative, sir.

Mr. SMITH: And quality also.

Mr. PROVOST: We depend on them, of course. They are experts in that line and we depend on them to make sure that the quality is such that we would want to offer it to the consumer.

Mr. SMITH: You mentioned the increase of prices as a result of packing. Perhaps you could get one specific piece of information for us at another meeting, or at a later date, that deals with Lipton's soup, which for years and years was sold in a heavy tin foil package. It is a dried soup. Suddenly it was put up into packages with a very fancy case and was advertised on television and radio as "not falling over on the grocer's shelves" and so forth and was so much more convenient. Can you find out and give us at a later time the price increase that resulted from the old way of selling Liptons being changed to the new way? Is that possible?

Mr. PROVOST: We could give you the cost of the envelope that you mention and we can also provide you with a cost of this newer product that you mention, sir.

Mr. SMITH: That is all. I would just like to say that if you ever want any recommendation for your own private brands, my wife is a thrifty housekeeper and she says that the A & P brands are very good.

Co-Chairman Senator CROLL: Please, no free advertising. Yes, Mr. Addison?

Mr. ADDISON, M.P.: Mr. Chairman, I appreciate the opportunity to ask questions although I am not a member of the committee. I was interested in Mr. Provost's answer to Senator Choquette. I believe he stated that their advertising budget was less than one per cent of sales. Is that right, Mr. Provost? Does the total amount of advertising, in other words, the advertising bills on co-operative advertising, does this pass through your company? Or is the co-operative advertising bill separate?

Mr. PROVOST: This passes through our company. We do our own advertising, Mr. Addison, our own layouts. We do not have an agency.

Mr. ADDISON: What I am getting at is, if you are advertising a national brand or taking a page in the newspaper, I understand that in some cases national brands that are being advertised will pay for a portion of the ad in the newspaper. Now, does the portion of the ad in the newspaper pass through your company or does the national brand bill directly through their own agency?

Mr. PROVOST: Mr. Kennedy, would you care to comment on that? That is your field?

Mr. KENNEDY: I am not too sure that I understand your question. They have—and when I say "they," I am talking now of national advertisers, whether soap or anything else—they have moneys that they use on a co-operative basis and on an equal basis with all of our competitors, because of Section 498A of the Criminal Code, which states that they may not give us an advantage over someone else. Now, we have various vehicles, radio, if you wish, street car cards, newspaper ads, circulars and so on, and they will come to us and ask for support of a product during a week in September, and, if there is no conflicting item, then we will accept this advertising from them.

They put this in writing to us that this is available to all buyers of like size and quantities. It is processed by our purchasing department to make sure that it is legal in every respect, and we in turn live by the contract, if you wish, as it is accepted.

In other words, if they require in return for the amount of money they are going to spend with us a future retail, we provide that to them. If they stipulate the size of the ad, this is also provided to them.

Mr. ADDISON: I would just like to ask this: from what I gather from your answer it is that the less than one per cent advertising cost on your national

sales figure includes the co-operative advertising dollars that are paid to you to produce the ads which appear. Is that correct?

Mr. PROVOST: This is correct.

Mr. ADDISON: That is the total cost?

Mr. PROVOST: It is the net cost.

Co-Chairman Mr. BASFORD: What happens to the company that refuses to co-operate on such ads? The manufacturer?

Mr. PROVOST: What happens to the company who refuses?

Co-Chairman Mr. BASFORD: Who is not prepared to enter into the transaction.

Mr. PROVOST: I presume they go elsewhere and make the offer to someone else. One is not compelled to take these offers, to participate, Mr. Basford.

Co-Chairman Senator CROLL: Let me understand this clearly. A company advertises in your page for one of his products. The cost of that portion of the advertisement is $4,000 or say $1,000, for that particular issue. Perhaps $1,000 is nearer the mark. Now, he pays you the $1,000 that you pay to some agency for the ad. Is that right?

Mr. PROVOST: Right.

Co-Chairman Senator CROLL: That is what happens.

Mr. PROVOST: That is right.

Co-Chairman Senator CROLL: That is what you are saying.

Mr. PROVOST: In effect, they are buying a service from us, and we render the service they dictate.

Mr. ADDISON: Does the one advertising receive contributions from the national advertising company, or rather, from the nationally advertised brand?

Mr. PROVOST: Yes, sir.

Co-Chairman Senator CROLL: Well, gentlemen, take a look at the clock, and when I take a look at my list here I see that the next person on my list is my Co-Chairman Mr. Basford.

Co-Chairman Mr. BASFORD: I will pass for the moment.

Co-Chairman Senator CROLL: Then there is Mr. Leblanc, Mr. Allmand and Mr. Saltsman.

M. LEBLANC (*Laurier*): Je me réfère aux deux états qui ont été distribués après que nous avons commencé à siéger et qui sont marqués confidentiels, sur l'étude «Personnel, Operating and Maintenance»,—je remarque que depuis 1961, il y a augmentation dans le pourcentage,—en 1961-1962, .0028 et ainsi de suite, jusqu'en 1965 inclusivement. Or, je remarque, en 1966, pour 31 semaines, le pourcentage a baissé de .009. Je remarque le même phénomène sur le «profit après impôt»,—«profit after tax»; le profit augmente jusqu'en 1965 inclusivement. Mais, en 1966, le pourcentage diminue de .0020.

Cependant, je remarque qu'en 1966 les ventes ont été approximativement $4,200,000 par semaine et, en 1966, $4,500,000 par semaine. Or, je constate une augmentation dans les ventes. J'ai de la difficulté à réconcilier le fait que les dépenses diminuent, que les ventes ont augmenté et que le profit après impôt a diminué.

Il y aurait peut-être explication dans l'impôt supplémentaire de 5 pour 100, qui pourrait peut-être entrer en ligne de compte, si on le considère comme impôt, et non pas comme compte recevable dans les 18 millions du gouvernement.

En plus, j'aimerais savoir sur le profit en 1965,—quel pourcentage de rendement sur le capital peut-il figurer?

Co-Chairman Senator CROLL: Mr. Leblanc, that is not only an important question but is a long question and will require quite an answer. Would you mind if I permitted Mr. Provost to answer it in writing, because he will be back here at a later time. Is that all right?

Mr. LEBLANC (*Laurier*): I agree.

Co-Chairman Senator CROLL: Will you read it back to us, Mr. Leblanc, so that we will understand the question completely.

Mr. LEBLANC (*Laurier*): What I am saying is this: On the statement that has been distributed to the members of the committee, "Trend of Personnel, Operating and Maintenance Costs 1961 to Date", I notice that from 1961 to 1965, inclusive, every year the percentage of expenses has increased. Now if I refer to the statement of sales and profits, after taxes, for the same years, I find the same thing happened, that is that the percentage of profit after tax has increased. Now in 1966 the expenses for personnel, operating and maintenance have decreased by .009, and the profits after tax have decreased by .0020. Now if I take the 1965 sales figure and divide it by 52 it gives approximately $4,200,000 a week. If I make the same calculation for 1966 for 31 weeks, I arrive at about $4,500,000 sales a week. What puzzles me is this: The sales increase and the expenses decrease and the profits after taxes decrease. I am not able to reconcile that. If you increase your sales and if your expenses decrease, of course your profits must increase.

Mr. PROVOST: It is simply this: We are selling our food at a little less markup.

Mr. LEBLANC (*Laurier*): Then the increases in the sales would be in the volume only. The increases in the sales from 1965 to 1966 would be accounted for only by the relation of volume you are getting and not for the increases in prices?

Co-Chairman Senator CROLL: It isn't quite that. He has not got your question clearly, Mr. Leblanc. Can you word it differently?

Mr. PROVOST: If we can have the question in the transcript, we shall be glad to answer.

Co-Chairman Senator CROLL: They will take it from the transcript and answer then.

Mr. LEBLANC (*Laurier*): That will be all right.

Co-Chairman Senator CROLL: Mr. Allmand.

Mr. ALLMAND: Mr. Provost, in looking at the list, one looks at the comparison of retail markups, and looking at Appendix "C" I notice certain things. There are 29 items on that list, and I notice that in 15 of these items the price in 1966 is either the same as or less than it was in 1965. That is in 15 items out of 29. It would appear that the prices have not really gone up as between 1965 and 1966. In fact it would seem that they have almost remained steady or gone down. What was the basis for the selection of this list?

Mr. PROVOST: The questions sent to us by the special assistant read: "Some typical examples of the recent history of the retail markups on approximately 30 commonly purchased items such as," etc. These are all commonly purchased items, and these are items being used and which most consumers would have in their market basket—sugar, coffee, corn flakes, canned goods of all kinds, baby foods, etc.

Co-Chairman Senator CROLL: That is what we commonly agreed to call the basket. Mr. Allmand was in on the steering committee where we agreed on this.

Mr. ALLMAND: Which department in your store makes the highest profit?

Mr. PROVOST: Fruits and vegetables.

Mr. ALLMAND: What makes the least profit? Is this fresh fruits and vegetables?

Mr. PROVOST: The dairy department is one that makes a very low profit because of certain items such as butter, cheese, milk, which are all commonly sold—

Mr. ALLMAND: You are talking about the low profits department?

Mr. PROVOST: This is what you asked.

Mr. ALLMAND: Are there any departments in which you take a loss?

Mr. PROVOST: We never purposely take a loss on anything.

Mr. ALLMAND: In Appendix "D" you have a comparison of prices with your competitors. I wonder if you can give me the names of competitors "A" to "E". I don't know the names, and I was wondering if in the case of these competitors "A" to "E" your store has better prices than they have in every instance. I was wondering also if there are any major stores not on that list that are lower. Could you give me verbally the names of those six stores?

Mr. PROVOST: You want to know the name of, for example, Competitor "A".

Mr. ALLMAND: The consumers in my constituency would be interested. They would probably flock to your store.

Senator THORVALDSON: Mr. Chairman, I do not think a question like that should be allowed unless it is shown to be relevant to this inquiry.

Mr. ALLMAND: I think it is relevant. This Appendix "D" shows a comparison of prices for A & P and other stores. It shows that A & P have lower prices in a very high range of goods as compared with its competitors. I think the public would like to know who the competitors are that have higher prices. Competitor "A" has 63 per cent items with higher prices than A & P.

Senator McDONALD: I agree with Senator Thorvaldson. I think it is not a fair question. We are going to have these competitors before us. I expect that some member of the committee will ask for similar material to that included in Appendix "D", and I think we can get our answer without referring to So-and so and So-and-so.

Mr. OLSON: The other problem that I see arising is this: If the name is given then we almost certainly have to have the date on which the prices were checked, and it would be a pretty involved list.

Co-Chairman Senator CROLL: We are now doing some comparative shopping by the committee, and perhaps we will have the answer you want, Mr. Allmand, and in any event we will be able to deal with this matter again when they come back next time.

Mr. ALLMAND: I am not satisfied with that. I don't see why he cannot give the answer if I promise like others to ask the same questions of others who appear before us.

Co-Chairman Senator CROLL: I do not feel I can rule the question out of order.

Mr. ALLMAND: I agree with Mr. Olson, and if they want to give the date, fine.

Co-Chairman Senator CROLL: No, let him give it, and the date.

Co-Chairman Mr. BASFORD: I dislike disagreeing with you, senator, but I think Mr. Provost is here to answer questions for his own company and not others.

Mr. ALLMAND: But he filed it in his exhibits.

A MEMBER: I think it is a pretty self-serving appendix.

Co-Chairman Mr. BASFORD: The committee has had approaches to it to do comparable buying by a firm that does this business, and I think Mr. Allmand

would be better to suggest to the steering committee that a firm be hired and that we prepare our own statement, rather than have one which is self-serving.

Mr. ALLMAND: You are beginning to put restrictions on questions, Mr. Chairman, and I will not withdraw it, but if you want to rule it out of order—

Co-Chairman Senator CROLL: No one is placing any restrictions. You are insisting on asking the question, and you will get the answer.

Senator THORVALDSON: I think it is an intolerable situation, if the committee is going to operate that way. I would not like to see this adopted as a principle, because we may be in fields where questions are asked that are entirely unfair to other people. The evidence here is not under oath and, consequently, I do not think we need to do anything to hurt people where the answer cannot be of any value to this committee at the moment.

Co-Chairman Senator CROLL: But, Senator Thorvaldson, we did not ask for this information: this information was offered to the committee; it is part of the brief. He says, "You put something in your brief. What were you talking about?"

Mr. ALLMAND: I want to know, for example, if those are in my province.

Co-Chairman Senator CROLL: How can I possibly rule it out of order? He said, "This is your brief, and this is 'A', 'B', 'C', 'D' and 'E'." I think it is a proper question.

Mr. ALLMAND: The "A", "B", "C" and "D" may have pinky stamps.

Co-Chairman Senator CROLL: Do not talk yourself out of it; you are ahead at the moment.

Mr. OLSON: Depending on who the names of "A", "B", "C", "D" and "E" are, they will challenge the checks and they will want to know the dates the checks were alleged to have been made on.

Co-Chairman Senator CROLL: He is going to give them the dates and the times.

Mr. PROVOST: This price check was made by the Ambler Pricing Service, which is an outside source, on September 14, 1966.

Competitor "A" is Loblaw's; competitor "B" is Dominion in Ontario; competitor "C" is Steinberg's in Ontario; competitor "D" is Dominion in the Province of Quebec; and competitor "E" is Steinberg's in the Province of Quebec. These are our main competitors.

Senator MCDONALD: What is the name of the company that conducted the survey?

Mr. PROVOST: The Ambler Pricing Service. This is a service we buy and pay for.

Mr. SMITH: Is that for Toronto or all Ontario?

Mr. PROVOST: Metropolitan Toronto.

Co-Chairman Senator CROLL: It is not all Ontario, I want you to know that.

Mr. PROVOST: No, it is not all Ontario.

Mr. ALLMAND: Another question, Mr. Provost. You told me which departments make the highest profits for you and what are the lines. Could you tell me how your private brands compare for profit with the national brands? Do you generally make a lower profit on your own brands or a higher profit, despite the fact the prices are lower?

Mr. PROVOST: Pretty generally, the mark-up will run the same on our private brands versus the nationally advertised brands. In some instances we make a little more on private brands because the cost is slightly lower.

Co-Chairman Senator CROLL: Gentlemen, take a look at the clock. We are not going to finish anyway. Do not forget the witness has been sitting here since

3 o'clock answering questions. It is not easy for a man who is not in the habit of doing that, and he has done very well indeed.

I want to thank you very much for your co-operation; you have been very helpful.

Hon. MEMBERS: Hear, hear.

Co-Chairman Senator CROLL: We have a problem; we are trying to get to understand it and find some solution, and you have been very helpful. We are going to study the record and some of the further information you will be sending to us.

We have done you one good turn, I want you to know. We have almost 5,000 subscribers to the record of today, and they will all see the prices you charge and compare them to the other prices. We will not charge you anything for that at all; that is free advertising.

Thank you very much. We will be in touch with you soon.

Mr. PROVOST: Thank you, senator, and thank you, Mr. Basford.

Whereupon the committee adjourned.

Appendix "A"

The A&P Rain Check

This A&P Rain Check entitles you to purchase the following at today's special price:

ITEM	SPECIAL PRICE

It is A&P policy to always have an ample supply of any advertised special. But this item was even more popular than we anticipated. We apologize for any inconvenience caused you.

(store stamp)

Manager

Date

This "rain check" is good for one week from above date.

NOTE: Redeeming store should show redemption date & store stamp.

Appendix "B"

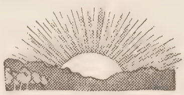
who cares
if the 'special' is sold out by the time you get there?

When we advertise a "special," we're careful to have an ample supply at your A&P. Even if it's a Super-Right meat "special"!

What could be more special?

Still, a "special" can sell better than our best expectations.

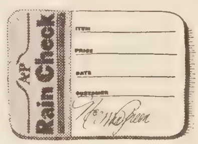
But we refuse to hide behind that fact.



We don't expect you to race to your A&P at the crack of dawn.

If we *do* run out, we'll give you the item at the special price the following week.

Just ask your A&P Manager for a "rain check." We never want to disappoint you. *Never.*



we care

A&P

Appendix "B"—*Continued*

Appendix "B"—*Continued*

who cares

Today, when a product doesn't live up to its promise, who cares?

And when you take the trouble to express your disappointment, who cares?

Perhaps it's naive of us to expect everyone to care *all* the time. (We know how common it is to hear people say, "I couldn't care less.")

But we'd like to make one thing clear:

We care.

At A&P.

When you buy anything at A&P that doesn't meet your expectations, tell us. We'll do more than refund your money promptly. We'll turn around and go to work on the problem—and pursue the matter right to the source.

When a product doesn't keep its promise, we care.

And—when you take the trouble to tell us about it, we care. All the way to the top.

In fact, if you have *any* comments on *any* product we sell—we welcome you to write the top. We mean it. Write to:

Mr. G. N. Provost
President
The Great Atlantic and Pacific Tea Co., Ltd.
P.O. Box 68, Terminal A
Toronto, Ontario

That way you can help *all* of us at A&P to serve you better.

we care

A&P

Appendix "C"

A&P BRANDS AND RETAILS		NATIONALLY ADVERTISED BRANDS A	B
Evaporated Milk, 16oz	4/59	2/37	3/46
Powdered Milk, 8#	2.59	2.99	3.19
Instant Coffee, 6oz	.89	1.21	1.33
Ginger Ale, 30oz	8/99	2/39	2/35
Can. Pop, Asst. Fl	12/95	2/31	6/65
Cheese Slices, 1/2#	.35	.41	.41
Sockeye Salmon, 1/2	.63	.69	.69
All Purpose Flour, 25#	1.99	2.59	2.63
Tomato Juice, Fcy, 48oz	3/$1.	.41	.41
A&P Ch. Peaches, 14oz	2/55	2/59	.29
Sail Soap Pwd. King	1.29	1.89	1.83
Sunnyfield Lard, 1#	2/53	.28	.29
Salad Dressing, 16oz	.35	.45	.45
Mayonnaise, 16oz	.39	.49	.53
Ketchup, 11oz	2/43	2/45	.26
Tomato Soup, 10oz	4/47	6/89	2/29
Baked Beans, 15oz	2/35	2/47	2/47
Cr. Corn, ch. 15oz	2/33	2/37	2/41
Peas, Fcy, 15oz	2/41	2/45	2/45
Nectar Tea Bags, 60's	.65	.87	.87
Potato Chips, 4oz	.25	.29	.29
Vac. Pack Coffee, 1#	.95	1.09	1.09
Froz. Orange Juice, 6oz	4/89	2/47	2/49
Froz. Corn, 12oz	2/43	2/45	2/49
Raisins, Seedless, 15oz	.33	.39	.35
Gr. Fruit & Pineapple, 48oz	.37	.41	.39
Sail Liq. Soap, 24oz	.45	.89	.89
Pumpkin Choice 28oz	2/43	2/51	.29
Jubilee Cheese Spread, 16oz	.69	.75	.73

Appendix "D"

PRICE CHECK

Competitor	# Items Checked	Same as A&P #	Same as A&P %	Higher than A&P #	Higher than A&P %	Lower than A&P #	Lower than A&P %
A	2364	683	29	1498	63	183	8
B	2433	1317	54	911	34	205	12
C	2273	1116	49	882	39	275	12
D	1070	463	43	512	48	95	9
E	967	457	47	408	42	102	11

9

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE

AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 9

TUESDAY, OCTOBER 18, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. S. Ron Basford, M.P.

WITNESSES:

Dominion Stores Limited: Mr. Ivor Crimp, Vice-President, Corporate Projects; Mr. R. F. Chisholm, Executive Vice-President; Mr. J. S. Feggans, Vice-President, Advertising and Public Relations; Mr. T. G. Bolton, Director of Strategic Planning; Mr. N. H. Shaw, Q.C., Vice-President and General Counsel.

Steinberg's Limited: Mr. Sam Steinberg, President; Mr. A. Steinberg, Vice-President and Treasurer; Mr. Jack Levine, Vice-President and General Manager, Que. Div.; Mr. Nathan Steinberg, Senior Vice-President; Mr. James H. Doyle.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

24998—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

For the Senate

Hon. David A. Croll, Joint Chairman

the Honourable Senators

Carter,
Croll,
Davey,
Deschatelets,
Hastings,
Hollett,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. S. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Duquet,
Gray,
Irvine,
Leblanc (*Laurier*),
Lefebvre,
Mandziuk,
McCutcheon,
McLelland,
Nasserden,
Olson,
Otto,
Ryan,
Saltsman,
Scott (*Danforth*),
Smith,
Whelan—(24).

36 members
Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the

24998—1½

problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, October 18, 1966.

Pursuant to adjournment and notice the Special Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate*: The Honourable Senators Carter, Croll (*Joint Chairman*), McDonald (*Moosomin*) and Thorvaldson—4.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Choquette, Leblanc (*Laurier*), Lefebvre, McCutcheon, McLelland, Nasserden, Olson, Ryan, Saltsman, Scott (*Danforth*), Smith and Whelan—14.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant; Mr. John J. Urie, Q.C., Counsel.

The following were heard:

Dominion Stores Limited:

Mr. Ivor Crimp, Vice-President,
Corporate Projects.

Mr. R. F. Chisholm,
Executive Vice-President.

Mr. J. S. Feggans, Vice-President,
Advertising and Public Relations.

Mr. T. G. Bolton,
Director of Strategic Planning.

Mr. N. H. Shaw, Q.C.,
Vice-President & General Counsel.

Mr. John Nestor,
Manager of Research.

At 1.00 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: *For the Senate*: The Honourable Senators Carter, Croll (*Joint Chairman*), Deschatelets, McDonald (*Moosomin*), O'Leary (*Antigonish-Guysborough*) and Thorvaldson—6.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Choquette, Leblanc (*Laurier*), Lefebvre, Mandziuk, McCutcheon, McLelland, Olson, Saltsman, Smith and Whelan—12.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant; Mr. John J. Urie, Q.C., Counsel.

The following were heard:

Steinberg's Limited:

Mr. Sam Steinberg, President.

Mr. A. Steinberg,
Vice-President and Treasurer.

Mr. Jack Levine,
Vice-President and General Manager,
Quebec Divison.

Mr. Nathan Steinberg,
Senior Vice-President.

Mr. James M. Doyle.

Tables submitted by Professor E. P. Neufeld in his presentation on September 29, 1966 (*See Vol. No. 3*) are printed herewith as Appendix No. 9 to these proceedings.

At 6.05 p.m. the Committee adjourned until Thursday next, October 20, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, October 18, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Mr. BASFORD: Order, please. The members of the committee will please come to order.

This morning we have as witnesses the representatives of Dominion Stores Limited. On my immediate left is Mr. Ivor Crimp, Vice-President, Corporate Projects; next to him is Mr. R. F. Chisholm, Executive Vice-President; and next to him Mr. J. S. Feggans, Vice-President, Advertising and Public Relations.

This is the first appearance of Dominion Stores Limited, and some witnesses we shall recall at a later date, this being in the nature of a preliminary hearing.

Without further ado, I would call upon Mr. R. F. Chisholm.

Mr. Robert F. Chisholm, Executive vice-president, Dominion Stores Limited: Thank you, Mr. Chairman.

Honourable members of the Senate and House of Commons committee, in an endeavour to collaborate as fully as possible with this committee, we thought it would be useful if we prepared a fairly comprehensive series of notes in French and English, which I hope are in the hands of all the members of the committee now, together with our own company annual report in French and English also. Mr. Crimp is going to lead us through these notes, and we felt that in the interest of getting through as much material as possible in the time available that it might be in order if we allowed him to read right through these notes and show us briefly the exhibits that we have. He has then a special presentation on this much discussed subject of beef, beef prices and pricing, and this, we believe, will leave the maximum amount of time for questions and answers.

Without further comment then, I will call on Mr. Ivor Crimp.

Mr. Ivor Crimp, Vice-President, Corporate Projects, Dominion Stores Limited: Honourable Messrs. Chairmen and Honourable Members of the Committee, it is a pleasure for me to represent Dominion Stores Limited before you. I will proceed at once to read our notes, of which I trust you all have copies.

1. Our industry and our Company welcome the opportunity to collaborate with the Special Joint Committee of the Senate and the House of Commons on Consumer Credit inquiring into the trends in the cost of living in Canada and the factors which have contributed to the changes in the cost of living in recent months. These notes are intended to indicate the measures taken towards

efficient distribution of quality food products, having in mind the lowest possible cost to the consumer, even during this period of added costs. The date and commentary are presented in accordance with suggestions from the committee but we have taken the liberty of adding some material and commentary which, we hope, will be helpful.

2. The subject of inflation and rising food costs is being exhaustively examined at the present time; at the moment our company is collaborating with the following provincial agencies and inquiries:

Ontario Department of Agriculture and Food, Ontario Food Council, Study of Beef Retailing Margins in Toronto Chain Stores 1965.

The Royal Commission on Agriculture in Quebec, Research Group on Fruits and Vegetables.

The Royal Commission inquiry on Agriculture in Quebec (Meat & Poultry).

Newfoundland Royal Commission on Prices of Food & Drugs.

Newfoundland Royal Commission on Economic Prospects.

3. Food costs have been influenced by:

Higher purchase price to retailer

Improvement in the nature of products (e.g. upgrading quality)

Higher operating expenses. (*See Exhibit "A"*)

4. Information obtained from the D.B.S. wholesale food price index shows that the food retailer's pricing structure is reflecting higher original costs in accordance with a normal business pattern. (*See Exhibit "B"*)

5. (a) Comments concerning specific products whose retail prices have caused concern.

BEEF: Contrary to press and public opinion retailers have not been benefiting unduly from higher prices. As noted by Mr. R. K. Bennett in his paper to this committee the costs have been rising whereas margins have been held to traditional levels, having due regard for rising expense ratios and advertised specials required. (*See Exhibits "C1" and "C2"*)

PORK: Costs to our company from Marsh to September 1966 of the most popular cuts including loins, shoulders plus number one sliced bacon have increased on the average and prices have moved up accordingly. However, because of running specials on bacon for 22 weeks out of the last 32 our margins have declined to some extent. And note that we do not buy carcass hogs. *(See Exhibit "C3")*

WHITE BREAD: No advance in cost or selling price between March and October 1966.

CITRUS: All citrus cost prices are expected to be down at the wholesale level this fall barring hurricanes and frost and this reduction will be reflected in lower consumer prices. Some citrus products such as oranges cost less today than a year ago. *(See Exhibit "C4")*

TOMATOES: Canned tomatoes and tomato juices are expected to be higher in price at the grower and processor level due to a short crop caused by drought, and in some cases too much rain, in 1966. This will be matched by an increase in consumer price in due course according to normal season-to-season trading.

POTATOES: Another example of price fluctuation reported by D.B.S. shows a 29 per cent increase in potatoes during 1965 and a 22 per cent decrease in the first seven months of 1966. *(See Exhibit "C5")*

BUTTER: According to the butter trade, butter could be imported right now, we are advised, from France, New Zealand, Denmark, and Poland at a price much below our current domestic current levels. Because the federal Government controls the price of butter the price to the retailer would still presumably be 63 1/2 cents in the interest of supporting the domestic producers. Retailers' prices have been revised traditionally, precisely in line with Marketing Board decisions.

EGGS: Cost and selling prices have moved up and down in parallel lines over recent months in the same way as they have done over many years. *(See Exhibit "C6")*

CHICKEN: In Ontario, consumer prices on chicken began their current rise in the spring of 1965. At this time, the Marketing Board, under the authority of the Department of Agriculture of Ontario, gave chicken producers a higher price for their product. Overall, the retail mark-up has remained relatively constant. (*See Exhibit "C7"*)

MILK: Prices are controlled by Government agencies. Supermarket gross margin before expenses currently runs about 10 per cent. And here I am making specific reference to the most economical package of milk, namely, the three-quart jug of homo, 2 per cent and skim.

TOBACCO AND CIGARETTES: While this committee is primarily interested in the price of foods, there are several items that contribute substantially to weekly family food costs, which are not foodstuffs. For example, the commodity that ranks number one in grocery sales in most large supermarkets is tobacco—largely cigarettes. In many stores tobacco sales account for almost 5 per cent of total grocery sales, compared, for example, with about 3 per cent for eggs.

PET FOODS: Another anomaly amid the current concern over food prices is the fact that Pet Foods ranked No. 19 in a recent survey of grocery product movement, representing greater sales volume than such items as soups, pickles, jams, and jellies, and far ahead of such a daily necessity as sugar, which ranked 35th in grocery sales volume. It is a commentary on our affluent society when more money is spent on Pet Foods than on some of the common every day family foods.

The foregoing examples illustrate in brief some of the varied and complex causes, including both national and international, influencing the final price which the consumer pays.

5. (b) Specials are arranged from week to week based on popular seasonal foods and made possible usually through sizeable advance buying or accepting a lower-than-normal mark-up to maintain the popularity of the store. Broilers, beef, turkeys, ice cream, soups, pies, cigarettes, bananas, sugar, eggs are examples of specials advertised by many stores.

(c) Mark-up history on some typical items is shown as requested in Exhibit "C8".

(d) The Ontario Food Council, following a recent study of beef gross margins in retail food chain stores in Toronto reported as follows:

> The consumer is not paying too much for beef:
>
> in relation to costs and services involved, nor,
> in relation to increase of salaries and standards of living.
>
> The consumer complaints about high prices may revolve around two reasons:
>
> related in her own mind with prices of many years ago, not realizing its present relationship to earnings,

meat is probably the largest and most important item in her total food budget.

No one segment is taking excessive profits from marketing of beef.

That more exacting details should be obtained on retail pricing and merchandising.

We have some data in connection with that.

—In view of this the average beef retailing margin of 22 per cent in six Toronto chains during 1965 was not excessive, considering the cost of handling beef, relative to other fresh meats.

6. In the past few years there has been a definite trend away from foods requiring considerable "in home" preparation to convenience foods such as frozen foods and instant foods which save the housewife time but generally have a higher unit cost. We can cite examples here of complete frozen dinners, instant coffee, dehydrated meals and now even freeze dried foods. Obviously, since these foods have a built-in maid service they must cost more since the consumer is now buying the basic food plus a service. The large scale acceptance of these products acclaims their place on our store shelves.

7. The quality of merchandise is continuously being improved. One example is better packaging of bread. Poly wrapping of bread adds to the cost of bread, but keeps the bread fresh longer. Quality changes such as this tend to make price comparisons over a period of time invalid. A time honoured example also is what has happened to the sand in spinach. (*See Exhibit "D"*)

8. In passing, it might be noted that the so-called family food basket today purchased at the supermarket contains a good many items which cannot be classified as food, i.e. health and beauty aids, hardware, soft goods, and other general merchandise. These products were not in evidence as much in supermarkets a few years ago but now tend to exaggerate the so-called family food bill.

9. We believe we are in the midst of a subtle change in the nature of inflation, from the type of inflation associated initially with excessive demand to a type initially associated and sparked first by rising costs. A good example can be cited in the shortage of labour driving up the price paid for labour, which eventually drives up the final price paid by the consumer for a product. Our own company is no exception, with wages representing the largest component in the inflationary force, being about 50 per cent of our total operating expense. (*See Exhibits "E1" and "E3"*)

In our present system of distribution, the human element is proportionately more important than in factory or field production. Unless drastic cultural changes take place, distribution cannot lend itself as favourably to the application of increasing mechanization as in other fields. Consequently, improvements in wages and benefits which quite properly accompany our rising standard of living, cannot always be offset by improvements in distribution efficiency. Thus, it would be expected that in the long run, the distribution segment will be more subject to inflationary pressures than other areas.

10. Increased taxation has a mounting influence on operating costs and, therefore, pricing structure. Taxation at the federal, provincial and municipal levels has had a bearing on rising consumer food prices. (*See Exhibit "F"*)

11. Building costs have recently taken a substantial jump and must be considered as an impetus towards higher prices. Since we rent most of our store buildings, higher construction costs are reflected in higher rents. Also the quality of the buildings has improved.

12. The kind of equipment and the cost of equipment required for a new supermarket is quite different and more expensive than a few years ago. A

typical supermarket equipment cost in 1966 is 34 per cent over 1961. (*See Exhibit "G"*)

13. Advertising and promotions are frequently cited as causes of rising prices, but in general such impressions are incorrect. (*See Exhibits "H1" and "H2"*)

14. Trading stamps are considered in some quarters to be offenders in the matter of price trends but they have been with us for many years and they do not account for price increases in 1966 versus 1965. The committee has asked for our views on the economic aspects of trading stamps and in general we are not in favour, but have been forced into them in one area of the country because of competitive activity. Other games and contests add a note of liveliness to shopping and do not add greatly to expenses. (*See Exhibit "I"*)

15. Increased operating expenses have to some extent been offset through introduction of greater efficiency measures in store operations, warehouses and distribution system despite the limitation of automation in retailing, and the great emphasis on the human element. (*See Exhibit "J"*)

16. Large supermarket organizations have been able to minimize the effect of cost increases by employing the economies of scale in reducing costs. They can use specialists in various phases of the operation, apply lower unit advertising costs since they are written off over a greater number of stores and distribute large unit volumes so their unit trucking costs are low and financing costs are kept to a minimum.

17. In recent years computers have been employed to assist in controlling inventory levels and improve buying decisions through better knowledge of product movement. Increased mechanization in both stores and warehouses has helped offset labour costs by improving productivity. All these advances eventually are reflected as advantages to the consumer since the purpose of such moves is to get merchandise through to the consumer at the sharpest competitive pricing.

18. One form of action which has prevented food prices from going higher than at present has been the development of private or company brands which are manufactured for use under contract specifications by manufacturers. These products carry our company labels and generally offer consumers excellent value and lower prices than national brands. (*See Exhibit "K"*)

19. Net profit in food retailing hovers in the area of two cents on the sales dollar and has not changed materially for many years. This is dangerously thin and does not leave room for much flexibility nor does it suggest an area for serious action to counteract inflation. Net profits must provide not only a return for shareholders but must also be accumulated for expansion and development of new stores and distribution plants to reduce costs. (*See Exhibits "L1" and "L2"*)

20. The leaseback form of financing prevalent in the retail food industry builds up a contingent liability not reflected in balance sheets but requiring a conservative approach in the reinvestment of earnings. Attention is sometimes devoted to so-called return on investment and in this connection it should be noted that leasehold liability, though unstated in the balance sheet has a bearing on the return on capital employed over a period of years. (*See Exhibit "M"*)

21. Gross margins in the supermarket industry have crept up slightly over the past ten years but are still moderate and today there is little change from a year ago. The tendency over the long run towards higher gross margins has resulted from higher operating expenses caused by higher labour cost, more store services, better quality store buildings, more expensive equipment, and

higher occupancy expenses. The higher gross margins have also been necessary because of the greater "value added" by the supermarket to the goods sold including extra services. (*See Exhibit "A"*)

22. Attention is devoted occasionally to the small proportion of the consumer dollar which reaches the original producer, as compared with the greater proportion required for distribution. The main reason for this is the improvement in production through the efficiency of mechanization which is not open to the distribution area. On the contrary, distribution is becoming more elaborate in line with our rising standard of living and is influenced by such factors as refrigerated transport, air conditioned stores, freezer cabinets, carry out service, increase in variety of goods, and others.

23. Pricing in the retail food industry is a somewhat intricate process with many factors to be considered. There has been no change, however, in recent years in the pricing philosophy or pricing procedure in the retail food industry. Mark-ups on some products, such as eggs, butter and turkeys are usually computed in cents per unit and checked against competitive prices and operating expense ratios. In many products there is an established area price which must be met regardless of margin available. Many prices are set according to so-called pricing points, such as 39 cents, 49 cents, etc. In all cases mark-ups and retained margins, at least on groups of products, will be expressed in accounting statements in terms of percentage on selling price and related in careful detail to expense percentages because of the fine tolerances required in food retailing. Prices are constantly compared with competition by pricing services and price checkers employed by the companies.

24. The committee has asked for views regarding the role of the small independent grocer. According to D.B.S. the independents including the voluntary groupings are doing approximately 53 per cent of the total trade in Canada, a proportion which has held steady during recent years. Frequently they, the independents, are able to offer personal service and longer store hours than are feasible for larger chains.

25. Competition continues intense and unrelenting in food retailing and all retailers are in the front line warfare every day in the continuous battle to hold the line on prices. Competition traditionally is the best weapon against price increases. It is not perfect, but it is the most effective to date. We believe the retail food industry is performing an efficient function at a reasonable level of profit.

26. The influences tending towards higher food costs and food prices are the same as are found in the automobile industry, the housing industry, the service industries, transportation, education, welfare and government services. It is also a worldwide trend. Fortunately, in Canada, we have not experienced such rampant inflation as has existed in some countries. However, food prices frequently show a faster rise or fall than occurs in other products because of the faster turnover of food products; it is a day-to-day business in which changes show up more quickly. Also, since food is common to all, consumers are generally more aware of food prices than other product prices.

27. In the retail food business we are the last link between the producer and the final consumer. In times of rising costs along the channel of distribution, retailers naturally are conspicuous and subject to controversy. Undoubtedly, food prices have climbed during 1966 at a rate which must engage the attention of all elements in the community and it has been our purpose here to set forth views as to some of the influences at work in this area of our economy. In Exhibit "N1" we have listed the trend in the D.B.S. consumer food price index. (*See Exhibits "N1" and "N2"*)

28. The Canadian consumer today spends a smaller percentage of income on food than ever and also eats better. D.B.S. most recent figures indicate a trend towards a lower proportion of income being spent on food. U.S. experience is similar. (*See Exhibit "O"*)

29. While inflation has been called a symptom of prosperity, it is also a threat to prosperity and as such must command the concern of all responsible businessmen such as ourselves, as well as the members of both houses of Parliament and Government officials.

30. There is no doubt that in recent months the forces of inflation have prevailed. However, some informed observers now feel that the restrictive monetary and fiscal measures already adopted in Canada and other countries may be sufficient to moderate the inflationary trend. Already we see signs of slowing down in the overall growth of the economy. With a real increase of only 0.6 per cent in Gross National Product in the second quarter of this year, it may be that this and other evidence lends weight to the contemporary concern over possible recession.

31. Because of some slowing-up tendencies now appearing in industry we are not inclined to recommend further deflationary action such as:

Increase in taxes
Higher interest rates
Tightening money supply
Clampdown on business capital expenditures or
Reduction of Government fiscal expenditures.

32. The tightening of money supply and higher interest are restricting and deferring many projects, and this process in turn will have a deterrent effect on profits, prices and wages, which will ease the threat of inflation to some degree. The trend is becoming apparent, although it may be that public impressions are about six months behind the underlying causes which produce those impressions.

33. Studies in the United States, the United Kingdom and in Canada to date have produced certain guidelines. We wish to express our endorsement of such devices as having some value in controlling inflation if fairly applied, even though a number of anomalies may develop.

34. Also, we would like to offer our opinion that any form of official price control will not be effective for more than a short-term period, and during that time would produce damaging disruption.

I shall go through the exhibits now, with a brief commentary. Exhibit "A" shows sales; gross margin, ratio to sales; total operating expense ratio to sales; corporate income tax ratio to sales; and net profit after tax ratio to sales.

Exhibit "B" shows the wholesale food index and consumer food index. The source is the Dominion Bureau of Statistics.

Exhibit "C1" shows beef and pork costs by weeks, June-September 1966, compared with the same weeks in 1965.

I would like to repeat my earlier comment, that we do not buy dressed hogs: we buy cuts.

Immediately following, as part of Exhibit "C1," we have compiled what we term "regular selling prices on meat cuts, Toronto, 1966 versus 1965." This is for the weeks June 5 to September 25. We have done this in detail, showing each of the cuts in the left-hand column and showing the selling prices of each cut during the weeks in the top heading. (*See Exhibit "C1," and table attached thereto.*)

Immediately following is Exhibit "C2". This is a report which is termed: store gross margin percentage on meats. We have taken the first half and the second half of the years 1961 through 1966—and of course the second half of 1966 is under way and will be reported later.

Exhibit "C3" shows side bacon costs and selling prices. Here again we have gone into as much detail as we possibly could develop, in the manner of showing at the top of the page the price of dressed hogs, because we notice it is under discussion. Of course, we do not buy them, but this is what we could buy them at. We show trimmed loins, N.Y. shoulder, which stands for New York shoulder, which is portion of the shoulder with the flank taken off. We show spareribs, sliced side bacon No. 1. The term "Adv." shows the date when the product was advertised, the price at which it was advertised, and the margin of profit we realized at the selling price.

Exhibit "C4" is another D.B.S. record, the consumer price index, oranges.

Exhibit "C5" is another D.B.S. report, the consumer price index, potatoes.

In Exhibit "C6" we have again gone into considerable factual detail. You will notice that we call it "Comparative wholesale and retail prices of grade A large eggs from two sources of supply, over the past 22 months." Those two sources of supply are—on the left-hand, the wholesaler; and on the right-hand, from our own Toronto egg grading station.

In Exhibit "C7" we show the Ontario cost of chickens and cuts, with selling prices. It goes from March 29, 1965 and on to the second page, to September 22, 1966. Again, the contraction Adv. means advertising.

I hope you do not mind my rushing through these. I think you would prefer it that way.

Exhibit "C8" shows the trend in recent gross mark-up on typical products before shrinkage and specials. This is in response to the committee's request.

Exhibit "D" is the improvement in processing and packaging of spinach. It is a typical example.

Exhibit "E1" shows the trend in overall employee salaries and welfare benefits, for the years ending March 1962 to March 1966.

Exhibit "E2" shows the average weekly basic salary of all full-time employees, excluding management. I think the figures speak for themselves.

Exhibit "E3" is the Trend in Typical Cost of Employee Welfare Benefits.

Exhibit "F" shows Corporation Income Taxes, Business Taxes and Property Taxes. This is done in considerable detail, and you will notice that there are some comments at the bottom of the page.

Exhibit "G" is the Comparison of Equipment Costs between two similar sized (15,600 sq. ft.) Toronto Stores 1966 vs 1961.

Exhibit "H1" is the Advertising and Promotions Expense Ratios showing the fiscal years 1962 through 1966 and the first half of 1967.

Exhibit "H2" is the Public Relations Expense Ratios again for the same years.

Exhibit "I" is the Trading Stamps Expense Ratios for the years 1962 through 1966 and the first half of 1967.

Exhibit "J" is Some Recent Efficiency Measures Introduced in Stores and Some Recent Efficiency Measures Introduced in Warehouses and in our Distribution System.

Exhibit "K" is a Comparison of Private Brand Price—or what we call company brands—vs. the National Brand Price. Having regard, sir, to the commentary yesterday, we have the data concerning the brand names and we shall be pleased to provide it. We had "A" and "B" and "C" originally, but we get up to date quickly.

Exhibit "L1" shows the Trend in Net Profit after Tax for the years ended 1962 to 1966. As you read our annual report you will notice that our fiscal year starts and ends in the month of March, and we have a sabbatical calendar that runs for seven years. There are 12 periods predetermined, and that date varies from about the 19th to the 21st or 22nd, but it always is in March.

Co-Chairman Senator Croll: Of those seven, which is the lean and which is the fat?

Mr. Crimp: We trust that they all will be good, sir.

Exhibit "L2" is an extract from the annual report and is of particular note. It is the disposition of Sales Dollar. This is the money that the customer spends in our stores and we have used $10 as an easy figure.

Exhibit "M", as noted, is Rate of Return on Investment.

Exhibit "N1" shows All Canada Consumer Price Indexes for 1963 through 1966. We have added an appendix here in the form of an editorial by the Toronto *Globe and Mail*. This is of recent date: "Not just a matter of food." We have also added a letter from the Department of Agriculture, Washington, D.C., to Mr. Michael J. O'Connor, Executive Director, Super Market Institute, Incorporated, 200 East Ontario Street, Chicago, Illinois.

Mr. Chairman, with your kind permission I will proceed at once to go into a case history of a side of beef. I am not sure whether they have been distributed or not, but copies of the beef story have been produced in French. We do not seem to have our English copies, but I shall narrate the English and we will see that everybody gets an English copy promptly. I hope everybody has a French copy. This is headed Preparation of a side of beef for sale at retail, a commentary of certain important factors, and I would like to add that this has been done at the special request of the parliamentary committee, and our attempt is to provide data which we do not find available from any sources on the North American continent.

The side of beef is a red brand steer naturally aged for flavour and tenderness, and that aging process takes 12 days. The approximate age of the steer at time of slaughter was 23 to 25 months. The live weight was 1,030 pounds. After dressing, the carcass weighed 576 pounds, and the side, the half of the dressed animal which we shall discuss, weighed 289 pounds.

This side of beef cost, dressed, 49 cents per pound. It was defatted in the usual packing house manner, and I might add a commentary that our procedure of defatting in Canada is infinitely superior to that of the United States or to that of any other country that I know of. The side weighed 289 pounds and got 49 cents a pound for a total cost of $141.61 delivered to a Dominion Store in the City of Toronto.

The cutting and shrinkage loss, bones, fat and suet, which are sold to renderers, yielded a return to us of $2.88. The bones, fat and suet plus a further cutting loss, which is bone dust and the moisture that drains out of the meat as it is being prepared into steaks, cuts and roasts and so on, total altogether a shrinkage loss of 70.90 pounds. I may drop some decimals as I move along. They are in here, but for the sake of speed I might drop them.

The weight of our side is 289 pounds, costing $141.61. We now deduct from that the bones, fat and suet and cutting loss of 70.90 pounds. The remaining portion of the side minus the 70.90 comes to 218.1 pounds. Our 218.1 pounds now remaining, due to cutting and shrinkage loss of 70.90 pounds, now costs us 63.88 cents per pound. The 218.1 pounds which costs 63.88 cents per pound contains 71.27 pounds of trim, hamburg, skirt steak, braising ribs, point brisket and plate brisket.

The 71.27 pounds which costs us 63.88 cents per pound sell for prices ranging from a high of 59 cents per pound to a low of 31 cents per pound. The

total selling price of 71.27 pounds comes to $37.95. So that we have an actual loss on the 71.27 pounds of $7.27.

The balance of our side now remaining, 146.83 pounds, because of the $7.27 loss on cuts as per page 7, the 146.83 pounds is 51 per cent of the original side and it now costs us 69.04 cents per ground.

Now we deal with the 146.83 pounds costing 69.04 cents per pound. This is the balance of the side and it breaks out as follows: Blade roast, 14.13 pounds at 75 cents per pound, total $10.60; shank meat, short rib and cross rib, 39.93 pounds at 79 cents per pound, total $31.58; rump roast, prime rib and flank steak, 22.94 pounds at 99 cents per pound, total $22.71; round steak, round and rump roast, 27.38 pounds at $1.09, total $29.84. The sirloin tip, 7.41 pounds at $1.13, total $8.37. Porterhouse steak and wing steak, 33 pounds sold at $1.29 a pound; total $42.57; and the cube eye, of which there was 2 pounds, sold at $1.39. I think there is a typographical error in the brief, it is $1.39 correctly, for a total $2.78.

So, then, our 146.83 pounds sold for a total of $148.45. This means, and another way of saying it is, that less than 25 per cent of the original 289 pounds side sold for over $1 a pound. The total income—that is, the selling price—for the complete side, for the 289 pounds: bones, fat, etcetera, yielded $2.28; trim, skirt steak, etc. $37.95; and the final 146.83 pounds, $148.45. The original cost was $141.61; the maximum potential profit, $47.07. I will make reference to the "maximum potential" later, if I may.

The percentage calculation : We have given it in dollars, and we now move to the calculation for percentages to the industry. Our total selling price, $188.68; cost, $141.61; the maximum potential profit, $47.07. We divide the $47.07 by the $188.68, and it shows us that we made 24.9 per cent on the selling price of this side. This 24.9 per cent is the maximum potential profit.

Now, $47.07 or 24.9 per cent maximum potential profit must cover all costs—labour, rent, light, power, water, heat, air conditioning, maintenance, taxes, insurance, snow removal, wrapping and re-wrapping (when required), weight tolerance shrinkage, income tax, depreciation, dividends, etcetera.

Today's meat marketing demands self-service. Self-service demands pre-packaging and all the costs attendant thereto. Modern marketing demands special product promotion at feature prices. During weeks when beef is featured a reduction in the maximum potential profit of approximately 4 per cent takes place. That varies according to the cut or cuts being featured and the prices at which they are featured. Four per cent is a pretty good average. It does go as high as 6, and slightly over. This reduces an already very slim profit.

We trust this commentary will help provide for all concerned a better understanding of what happens to a side of beef in preparation for selling to the consumer, and further prove conclusively that beef marketing in Canada is being very scientifically and efficiently conducted.

May I make reference here to that term which we used, "maximum potential profit"? The practice in the industry is to set what are commonly known as regular selling prices. This is the full, regular selling price from which we select items to be advertised and a price is reduced and the shrinkage and other things take place. In order to provide factual data concerning this, we did an actual audit in a meat department. We had two fully qualified auditors move into the store over the week-end. They took inventory of all the meat product in that store and recorded it. They actually were present at the receiving door, to receive every pound of product that came in the door. They actually weighed every pound of product that came in. They followed the pricing structure, the reductions and losses throughout the week. They were there constantly, and at the end of the week they took the inventory and then

they knew what was left. And I would like to point out for you that in my presentation on our side of beef here we showed a maximum potential profit of 24.9 per cent. The exhibit I have before me is dated September 10, 1965, and at that time the margin shown here, the maximum potential was 27.27 per cent. It was higher than the exhibit that I showed. During that week the advertising of beef reduced our maximum potential by 6.11 per cent. What we term "loss of bloom"—as the meat is cut prior to actual preparation for wrapping, there is oxidization takes place, and this has to be removed before it can be put into a package. This was another 1.09 loss. There is spoilage of .11. Day-old minced, put in the garbage can, a loss of 0.35. Tolerance in weighing—a very important factor. We have to allow sufficient in the packaging process done in advance so that the weight of the package when the customer picks it up will be full and total are recorded on the front of the package.

The wrapping expense was 1.54 per cent, but what we term our total known loss—all of these factors are known losses—came to 11.07 per cent. So, starting out with a potential maximum obtainable margin of 22.7 per cent we end up in the final analysis with 16.20 per cent.

I will not bother you with the other detail in here. We will provide this, sir. It is an audit done, and it is an authentic paper which I think you will find of great value. It does show that in this particular meat department during this week we had a full selling price—if we had sold everything at the full selling price and had no losses of any kind, and did not have to wrap anything, we would have received 29.2 per cent on the full range of the product. We have enumerated all of the known losses, and we show here that we ended up actually in that week of operation with a realized margin of 21.58 per cent.

We believe this, sir, to be of value because it was taken a year ago, and it is factual.

Thank you very much.

Co-Chairman Mr. BASFORD: Thank you, Mr. Crimp. The first member of the committee on my list is Mr. Allmand.

Mr. ALLMAND: Mr. Crimp, in paragraph 34 of your brief, on page 9, you say:

> Also we would like to offer our opinion that any form of official price control will not be effective for more than a short-term period, and during that time would produce damaging disruption.

What are your reasons for that statement—that any form of price control will do those things?

Mr. CRIMP: I would like, if I may, Mr. Allmand, to ask Mr. Chisholm to answer that question.

Mr. CHISHOLM: Mr. Allmand, having spent some time in Ottawa on price control I have to report that at the very best price control is a most difficult affair, requiring not only a roll-back of prices but also, as we found in our price control days previously, considerable government subsidy to make it work at all. The disruption comes—if that is what you are asking about—by any form of price control that requires setting prices at any given point. That means a rolling back of the prices to the consumer, to the retailer, to the wholesaler or the processor, and to the original producer. At any given point when you do this it cannot be equitable because not all people raise their prices or wages at the same moment. Therefore, there is a serious disruption for that reason. There is no one given moment when all prices are raised in the same amount.

Mr. ALLMAND: In the previous paragraphs I notice that you approve of guidelines, but that you object to some permanent kind of price review board.

Mr. CHISHOLM: No, we certainly would not object to that.

Mr. ALLMAND: Some of your stores, I believe, are in areas where this boycott is going on—in Montreal, Ottawa and Toronto. Have you noticed any effect on your volume during the period of this boycott?

Mr. CHISHOLM: We have in individual stores. In total areas it is not very noticeable yet.

Mr. ALLMAND: But you have noticed it in individual stores?

Mr. CHISHOLM: To some extent, yes.

Mr. ALLMAND: I was surprised to read on page 3 of your brief that tobacco products rank as the number one item sold in your stores. This is surprising. I think you said they accounted for 5 per cent of your sales.

Mr. CRIMP: The comment there, sir, is that it is the largest item in what we call groceries—dry groceries—which is separate and apart from meat, produce and provisions, and so on. It is included in canned goods, packages of flour, and that type of thing. It is the biggest single commodity in that group.

Mr. ALLMAND: I see. Do you have your own wholesale organization, sir?

Mr. CRIMP: We operate through distribution centres, one in Toronto and one in Montreal. The Montreal plant serves basically the province, and particularly Metropolitan Montreal and to some extent our eastern Ontario district, being Ottawa and area. It does not supply the farther-out areas. In those areas we deal largely with wholesalers, and the same is true of northern Ontario and western Canada.

Mr. ALLMAND: Where you do have these wholesale units or distribution centres, do you make for accounting purposes a profit on the sales from your wholesale organization to your retail organization, and also on the sales from the retail organization to the customer?

Mr. CRIMP: We do operate on the basis of what we call a plant mark-up, yes.

Mr. ALLMAND: So your company actually does, where you have these wholesale units, make a greater total profit than it does in areas in the outlying districts where you do not have these wholesale stores and where you have to buy from other wholesalers?

M. CRIMP: Well, I wonder if you would state that question again. I am not quite clear on your question.

Mr. ALLMAND: You said that in certain large cities like Montreal and Toronto you have wholesale stores or distribution centres; is that right?

Mr. CRIMP: That is right.

Mr. ALLMAND: I am wondering whether in those cases, since you have control of your wholesale business, you make greater profits than you do in the areas where you do not have these wholesale units.

Mr. CRIMP: I would not say that this is entirely correct, and my reason for that statement is that we find the wholesale grocer as such in Canada today is a very efficient distribution means. He serves us with great efficiency, and quite often at prices lower than those at which we can lay the products into those outlying areas.

Mr. ALLMAND: On page 3 you refer to specials. You say that you give specials from time to time. Now, I understand that the national brands people often give specials to the grocery stores, such as, let us say, Libby's or Heinz—I am just pulling names out of the air here. I have heard that they have given specials to the supermarkets and to the retailers. First of all, is this correct?

Mr. CRIMP: That is basically correct, yes.

Mr. ALLMAND: Do you always pass on these discounts, or these special prices that are given to you, to your customers?

Mr. CRIMP: I would say that generally these lower prices at which the procurement is done would find their way into the consumers' hands, yes.

Mr. ALLMAND: But not always?

Mr. CHISHOLM: It is usually part of the agreement with the supplier himself, who gives us these prices for the purpose of passing them on.

Mr. ALLMAND: I understand that many times when a producer or manufacturer gives you these specials he does not mark on the packages the special price, so that the customer does not know you have got these discounts. Sometimes he does and sometimes he does not. I have been told that some supermarkets pocket these savings, and continue to sell the product at the usual price.

Mr. CRIMP: I think the answer to that is that anyone who endeavoured to indulge in that practice would not be in business long, because his competitors would cut the feet out from under him. His competitor is trying to get a pricing advantage. So, we do pass it on basically, yes, because we wish to stay in business.

Mr. ALLMAND: But do you think there is that much competition in respect of prices, especially when you have this stamp business going on? Let us say a lady is going to the Dominion Stores because she is saving the stamps of the Dominion Stores. Would she go to another competitor because there is a two-cent, three-cent or five-cent difference in price when she is trying to complete her book at the Dominion Stores, and when the Dominion Stores gives the stamps she is saving?

Mr. CRIMP: I think perhaps that some of the ladies would like to finish up their book, yes.

Mr. ALLMAND: So they are more likely to stick with the store they have been accustomed to going to, in spite of the fact that one of your competitors is selling a particular product for a few cents less than you?

Mr. CRIMP: I think, sir, taking it overall, you will find that the companies which have different types of stamps have their own, what we call, advertised specials each week. They may not be similar items each week, but over a given period of time they will be relatively the same.

Mr. ALLMAND: Yes. Now, you also refer to taxation on page 5. I should like to ask you if the implementation of the Canada Pension Plan at the beginning of this year has entered into your increased costs in any great way, and whether it has had an effect on prices?

Mr. CRIMP: I would ask Mr. Chisholm to answer that question.

Mr. CHISHOLM: Like all increased charges with us, that will have to enter into our pricing structure in due course.

Mr. ALLMAND: I have a few short questions. I was wondering also whether your mark-up on the same product advertised from area to area is the same. In other words, could it be that your mark-up in your stores in Montreal would be different than those in the outlying areas of Quebec, or different in Quebec from Ontario?

Mr. CRIMP: Our company operates on what we call a decentralized operation of management, which means we have operating executives at each of our district offices, whose responsibility it is to know the area in which he operates, to have those brands and items of merchandise on the shelves which the people in that area would like to have; and he is an economist in the setting of his selling prices. Then I would expect your question to be answered that the prices and charges per item would vary through all our district offices.

Mr. ALLMAND: One final question. On page 4 you state that the family food basket contains many items which cannot be classified as food, such as health

and beauty aids, drugs, and so on. Has the percentage, let us say, of the basket which the consumer takes out of your market in each item, continued to rise over the past five years? Have you sold more and more of these things at a continued rising price?

Mr. CRIMP: To answer your question, there has not been any meteoric rise. It has been constantly upwards, but not to a big, marked degree.

Mr. ALLMAND: What department in your store gives you the biggest profit?

Mr. CRIMP: We would not be able to answer that question for you, sir, because in order to departmentalize and go through the mechanical procedures that are necessary it would be totally uneconomic; our margins would not permit it.

Mr. ALLMAND: You do not keep records to determine what department the meats—

Mr. CRIMP: We know the margins yielded by departments, but not as to profits, sir.

Mr. ALLMAND: What department has the greatest margin?

Mr. CRIMP: The margin expressed as a percentage of sales?

Mr. ALLMAND: Yes.

Mr. CRIMP: Produce is the highest.

Mr. ALLMAND: Because you advertise meat a lot, where does that fit in in the scale of departments?

Mr. CRIMP: It is lower than produce.

Mr. ALLMAND: That is all, thank you.

Mr. LEFEBVRE: Among the major food retailers in Canada, what rank do you occupy?

Mr. CRIMP: Perhaps Mr. Chisholm had better answer, because it is a difficult question to answer in that there are quite a number of things we are not totally aware of about our competitors.

Mr. CHISHOLM: We believe, sir, that our chain of stores does more business than any other chain under any one name. It may be that some competitive groupings who may control more than one chain would in total do more business than we do, but under one chain name we believe that ours is the largest.

Mr. LEFEBVRE: Could you give us an example of your last statement? Just what do you mean by different names under the same grouping?

Mr. CHISHOLM: This is competitive information that we are not privy to. We don't know. We are talking about produce now.

Mr. LEFEBVRE: You are just surmising then; you do not know?

Mr. CHISHOLM: That is right.

Mr. LEFEBVRE: Are your stores under complete Canadian control?

Mr. CHISHOLM: Oh, entirely, yes.

Mr. LEFEBVRE: How many stores do you have in the Province of Quebec?

Mr. CHISHOLM: About one hundred.

Mr. LEFEBVRE: What does it represent of your total number of stores?

Mr. CHISHOLM: It is 100 out of 380, as of yesterday.

Mr. LEFEBVRE: Could you tell us why national brands in your store cost the consumer more? Is it because you can get more for national brands or because they cost you more in most instances?

Mr. CRIMP: I think the answer to that question, sir, is that where we are making this comparison, we refer here to what we call company brands and nationally advertised brands. Dominion Stores Limited has been in favour of

nationally advertised brands, items that people of the consuming public know, recognize and want, and we have featured these items greatly. They do cost more item by item, than those items we have referred to as company brands. The company brands in total numbers is a very small percentage really of the total branded items we carry in our stores.

Mr. LEFEBVRE: Can you give us the percentage of your sales of your own brands compared to national brands?

Mr. CRIMP: On some items we can, yes, sir.

Mr. CHISHOLM: It ranges from zero to something like 73 per cent, I believe.

Mr. LEFEBVRE: The total of your sales?

Mr. CHISHOLM: The total.

Mr. FEGGANS: In the individual commodities.

Mr. CHISHOLM: We can probably work it out in total and provide it for you later.

Mr. CRIMP: I have a schedule here, sir, which covers some items, and it ranges from a high of 98 per cent on frozen French fried potatoes to a low on canned fish of 2.4.

Mr. LEFEBVRE: Do you have a comparison between Richmello Instant Coffee, which you sell, compared with a national brand? I refer to Exhibit "K".

Mr. CRIMP: It is shown here as a two-ounce tin selling at 39 cents, and a two-ounce national brand selling at 57 cents.

Mr. LEFEBVRE: What would this national brand name be?

Mr. CRIMP: Nescafé.

Mr. LEFEBVRE: What percentage of your sales would be Richmello and what percentage Nescafé?

Mr. CRIMP: I do not have that data immediately available, sir. If the committee would like to have it, we shall be pleased to compile it.

Mr. CHISOHLM: May I explain that one reason this is a little difficult and not readily available is that we handle some of our purchases and therefore some of our sales through our plants, so we have plant records of what is bought. Some is bought in varying degrees by 13 different districts who handle their own buying and selling, so we have no consolidated record on some of these products for the whole company, but of course we can get it.

Mr. LEFEBVRE: What would be your reason then, what in your opinion is the reason for the great difference between your brand of coffee and a national brand such as Nescafé? You made a statement in your brief that you are sure your brand is every bit as good or better than any of the national brands?

Mr. CRIMP: Did we say that in the brief?

Mr. CHISHOLM: Not exactly.

Mr. CRIMP: I don't recall having said that, sir.

Mr. LEFEBVRE: It may be that it was on the radio.

Mr. CRIMP: I think our statement is that it offers excellent value.

Mr. LEFEBVRE: But would you agree to make the statement that your brand is every bit as good as the national brand?

Mr. CRIMP: No, sir, I wouldn't, but I would like to make the statement that everyone has preferences. Some of the girls like our brand, some like Maxwell House, and some like something else. We in determining the blend of an instant coffee, blend a coffee which we think will be acceptable to our consuming public and it is of good quality and the blend is maintained constant and the quality maintained, but I would not like to compare it with other brands.

Mr. FEGGANS: In answer to that question, the big factor in the lower prices of company brands of private label is that the manufacturer receives one huge order, usually in January, predicting in advance for 12 months what our requirements will be. This enables him to plan his production more efficiently. It enables him, in the case of fruits and vegetables, to make his commitments to the primary producers for a product before it is even planted, and this is a great efficiency. It reduces the selling cost. There are lower selling costs involved. This is a big difference between the two.

Mr. OLSON: Are you suggesting that the national brands would give these predictions of sales?

Mr. FEGGANS: They do it at their own risk, in the common risk of any business operation, but they have no guarantee of sale, but with the company brand they are guaranteed a certain volume. They know they have that. I may say that the company brands also tend to decrease the price of private brands to a degree, because when a large manufacturer of coffee has an order for Nescafé or a Richmello coffee, this also enables him to arrange his production more efficiently and reduce the cost of his private brand.

Mr. LEFEBVRE: The reason I was interested in this last question is that in talking to many people in my constituency, they cannot figure out why something like Nescafé, sold from coast to coast, in every store in Canada, should cost more than your brand, sold only in your stores, where you might have only 5 per cent of the sales in some areas, while they might have 80 per cent of the sales.

Mr. FEGGANS: And the opposite could equally be true. We have 380 stores, in all provinces. We have a total distribution that many nationally advertised brands would like to have. They do not have that wide spread distribution in certain categories.

Mr. LEFEBVRE: You can buy Carnation milk in every corner store in Canada whereas you can buy your milk in only 380 stores. This is what people want to know—why is it dearer? Is it because of advertising only? Demand is increased by advertising, therefore the profits can be made greater? Is this the reason?

Mr. FEGGANS: There is no doubt that advertising is a substantial part of the total selling cost, but the difference between them is that they may have hundreds, possibly even a thousand salesmen out calling on the little store with an order book in hand, to write down one case of this and a half case of that. It is a much more costly procedure than getting one order for the whole year from a chain store.

Mr. LEFEBVRE: This, you think, would add 30 per cent to the retail price?

Mr. FEGGANS: We do not know.

Mr. LEFEBVRE: Who would know?

Mr. FEGGANS: The manufacturer, whom we understand will be here.

Mr. LEFEBVRE: Then we will have the manufacturers at a later date?

Co-Chairman Senator CROLL: Yes.

Mr. LEFEBVRE: Are there any of the national brands that produce your brand?

Mr. FEGGANS: Yes, sir, most of our company brands are produced by large reliable processors, with national names.

Mr. LEFEBVRE: And also for their own national brands?

Mr. FEGGANS: That is right.

Mr. LEFEBVRE: Would your purchases represent a majority of the sales of any of these manufacturers in any of these places?

Mr. FEGGANS: I would not know, but I doubt it very much.

Mr. LEFEBVRE: Would you be the single biggest customer they may have, in some cases?

Mr. FEGGANS: I would not know that either, but I would say it would be a large customer; for any of our major company brands, yes, it would be a large customer.

Mr. LEFEBVRE: Thank you, that is fine.

Mr. SCOTT (*Danforth*): As a supplementary, I notice that the private brands are not equal in quality to the national brands.

Mr. FEGGANS: We did not say that.

Mr. SCOTT (*Danforth*): What is the comparison in quality?

Mr. FEGGANS: In food products that are graded by Government regulations, there are standard, choice and fancy quality, and in those cases the quality is equal. In the matter of things like coffee or detergent or many other things it is purely a matter of taste and opinion. Mind you, in the case of coffee, taste is something that can develop through common usage in a family. Having grown up using a certain brand of coffee they may come to like that, and as they become adults they stick to that brand.

Mr. SCOTT (*Danforth*): How do you price it? Take Exhibit "K", liquid detergents, Domino, 32 ounce, 59 cents; and the national brand is $1.27. What would that be?

Mr. FEGGANS: That is Ivory.

Mr. SCOTT (*Danforth*): Can you give any explanation for the vast difference in price?

Mr. FEGGANS: I am afraid that is a question you would have to put to the manufacturer. We do not know what factors are involved in their costing structure.

Mr. SCOTT (*Danforth*): You do not in any way examine the quality?

Mr. FEGGANS: Oh, the quality. I thought you were referring to the price.

Mr. SCOTT (*Danforth*): What I was trying to get at is, if the quality is the same in both cases, how is it that there is such a vast difference?

Mr. FEGGANS: We did not say the quality would be the same. This is a matter of opinion. Liquid detergent is a chemical that is manufactured by people like Dow Chemicals, Monsanto, Domtar, and so on. We buy from them in the same manner as the national brands buy from them.

Mr. SCOTT (*Danforth*): It looks fishy to me, if you buy from the same supplier and, yet you are selling what you say is the same quality, at virtually half the price?

Mr. FEGGANS: We do not claim it to be the same quality. We claim it to be of a high standard, which we establish, a satisfactory standard, tested as to performance, so that it will do the job for which it is intended. But the national manufacturer may have an entirely different formula, which is his particular patent, and it is what he wants. We do not know what it costs.

Mr. SCOTT (*Danforth*): Do you in any way warn the consumers of this possible defect?

Mr. FEGGANS: We do not consider it is any defect.

Mr. SCOTT (*Danforth*): You are the only one who knows? There is nothing to tell the consumer?

Mr. FEGGANS: No. I would say this, that price may be the initial factor in encouraging a housewife to buy a company brand detergent; and if she finds it is satisfactory she will continue to use it; if she does not, she will buy one that suits her purpose.

Mr. SALTSMAN: To continue the line of argument on the private brands, have you evaluated your detergents with other detergents, to see how it washes, compared to other detergents? Do you have any testing program within your organization, on behalf of the consumer?

Mr. CRIMP: We submit our company brands to people qualified in the matter of measuring the ingredients, and the ingredients which make up Domino liquid detergent are all within all of the regulations required by any standards that we know of in the Dominion of Canada. When it is determined that bio-de-gradeable detergent shall be introduced, ours will be bio-de-gradeable. It is an excellent product, but we do not measure it against somebody else's product. We have endeavoured to develop a product which is, in our opinion, able to do a good job. It is excellent value, and the volume with which our customers purchase it indicates to us that large numbers of them like it.

Co-Chairman Senator CROLL: If we are getting into this, will someone please ask a question on Exhibit "K"? I am dying from curiosity as to the names of the national brands. Then we can get into the debate.

Mr. SALTSMAN: Very well, I ask the question.

Mr. CRIMP: The national brand of liquid detergent is Ivory, on all three items. In powdered detergent, the national brand is Oxydol, on all three items. In instant coffee, the national brand is Nescafé, on all three.

Under the heading of roasted coffee, the national brand A is Maxwell House and the national brand B is Chase & Sanborn.

Under salad dressing, the national brand A is Miracle Whip and the national brand B is Monarch.

Under the heading of biscuits, the national brand A is David et frères and the national brand B is Manning.

Under the item of tea bags, national brand A is Red Rose, national brand B is Salada and national brand C is The Tea that Dares. Bulk tea: the national brand is Salada brown label.

Under the heading soft drinks, and these are bottles, the national brand is Canada Dry. Under peanut butter the national brand A is Kraft, national brand B is Planter's, and the national brand C is York brand.

Under the heading cheese, national brand A is Cherry Hill, national brand B is Kraft.

Under the heading of chocolates, the national brand is Cadbury.

Under facial tissues, national brand A is Kleenex and national brand B is Scotties.

Co-Chairman Senator CROLL: Now, Mr. Saltsman, he is yours.

Mr. SALTSMAN: Thank you, Mr. Chairman. I hope you will recognize that I asked that question on your behalf, so that I will not be penalized accordingly.

On the question of detergents, I have been given to understand that the basic chemicals that go into all detergents in Canada are manufactured by one company in Canada. Does this conform with your knowledge of the situation?

Mr. CRIMP: I am not knowledgeable in that area, Mr. Saltsman. I do not know. Really, I do not. I do not think it is a true statement, I might add. I think there is more than one company.

Mr. SALTSMAN: I am talking of powdered detergents, the basic chemicals for powdered detergents.

Mr. CRIMP: I think there is more than one company.

Mr. SALTSMAN: I would like, perhaps, to start a new line of questions regarding your statement on page 5, section 11, referring to building costs. You say that building costs have recently taken a substantial jump and must be considered as an impetus towards higher prices. The questions I would like to ask you relate to the extent to which the building of supermarkets, or perhaps

the overbuilding of supermarkets, has contributed to higher prices to the consumer. I would like to ask you first of all how many supermarkets are there in Canada and what does this represent as a percentage of the population?

Mr. CRIMP: There are several parts to your question, sir. I wonder if we could have one question and deal with it.

Mr. SALTSMAN: How many supermarkets would there be in Canada?

Mr. CRIMP: I personally do not know, but *Canadian Grocer* or D.B.S. would have the figure. It is somewhere in the area of 1,700. It depends on what you call a supermarket.

Mr. FEGGANS: Correction; that 1,700 is chain stores, and it does not include voluntary groupings.

Mr. SALTSMAN: Can you tell me whether the number of supermarkets per population as a percentage has been increasing or decreasing over the last number of years?

Mr. CRIMP: I think I would like to ask Mr. Chisholm to answer that question.

Mr. CHISHOLM: There is no doubt that it has been increasing to some extent all over the world.

Mr. SALTSMAN: So there are more supermarkets serving the public as a percentage of population than in the past, despite the fact that supermarkets as units are becoming bigger and bigger.

Mr. CHISHOLM: You introduce your own qualifications there. In the last year we closed 25 stores that we called supermarkets. They were very small stores. There is some argument as to what constitutes a supermarket. The Super Market Institute, for example, will not recognize any store as a supermarket that does less than $20,000 a week or $1 million a year.

Mr. SALTSMAN: What volume of business do you have to do on a sort of square-footage basis to make a store pay?

Mr. CHISHOLM: There is considerable variation in that, depending on the location of the store. The rent varies a good deal from one location to another, and that, of course, would be the determining factor, or the determining variant, shall we say.

Mr. SALTSMAN: Do you have many stores that are not breaking even or making money at this stage of the game?

Mr. CHISHOLM: At any given point we always have a number. For example, our new stores usually take some time to develop into profitable outlets. We put a number of new stores into developing areas, for example, where we are serving the community in the hope that the community will develop and bring us into the black figures in due course. Oh, yes, we have some at all times.

Mr. SALTSMAN: Let me ask you a hypothetical question. If we had half the number of stores servicing the community that we have today, would the volume be appreciably reduced, and I am talking in terms of the volume of goods and services offered to the public, and would the public really be that much less better served if we had half the number of stores?

Mr. CHISHOLM: This is a great question and one we like to argue about among ourselves. I think Mr. Feggans should answer that question.

Mr. FEGGANS: I would like to suggest that customers presently shopping on Thursday evenings, late Friday and Friday enenings or Saturday would not think that they were being well served if there were only half the number of supermarkets. They consider them too crowded as it is.

Mr. CHISHOLM: You can put it this way too: we are not overexpanding; it is just all of our competitors who are doing so.

Mr. SALTSMAN: I recognize that this is a problem which all industries face; it is not only yourself; but there is a tendency for no one group of people to be able to control this sort of thing. However, considering the interests of the consumer and those factors which might help to reduce the cost of services to her, I wonder whether some consideration should not be given to this.

Now, you mentioned the fact that people tend to crowd the stores at certain times in the week and at certain hours. Could this pattern not be changed through promotion? Say lower prices in the early part of the week?

Mr. CHISHOLM: We have tried everything under the sun to do this very thing. Nobody has yet been able to do it. If that problem could be answered, it would be a great boon to all of us.

Mr. FEGGANS: I think the date on which a pay day occurs has as much to do with it as anything else.

Mr. CHISHOLM: That's right.

Mr. SALTSMAN: And that, if it were possible to even out the consumers' shopping habits, fewer stores would be required.

Mr. CHISHOLM: Oh, yes, as would be the case with restaurants, for example. If they could level out their sales curve during the day, they would be better off. And the same thing applies to any other business, for that matter.

Mr. SALTSMAN: What effect do extended store hours have on your store operation? There is great controversy in the retail trade in Canada at present. Should the store hours be longer? Should they be open every night or not open at night at all? I notice there is an increase in labour costs taking place. I might just make a note in passing that we had one of your competitors here yesterday, as you know, and I am sure you will avail yourselves of the information they gave us, which indicates that their personal operating and maintenance costs, as a percentage of sales, has been declining while yours has been rising.

Now, what effect do extended store hours have on your costs of operation?

Mr. CHISHOLM: As a rule our cost of operation goes down because the volume goes up. The percentage cost goes down because the volume goes up, due to the fact that the public generally seem to favour night shopping. This is so fashionable, as demonstrated in all the major shopping centres in the country, that it seems to be an irreversible trend.

Mr. SALTSMAN: So, as a group, you would be opposed to restrictions on opening hours as far as evenings are concerned?

Mr. CHISHOLM: I believe this should be left to the trade itself to work out whatever schedule of hours appeals to the consumer. I think the consumer should be the judge.

Mr. SALTSMAN: I see. I would like to ask you a few questions about bacon, a subject on which I am a great authority along with the chairman.

Mr. CHISHOLM: Which page are we on, "C-3"?

Mr. SALTSMAN: The mark-up on bacon, from the observer's point of view, would seem to be relatively high, except on those occasions when you are running a special. And in the instances—I have not the page before me, and I am trying to remember—it is close to 30 per cent, running between 28 and 29 per cent.

Mr. CRIMP: It is Exhibit "C-3," Mr. Saltsman.

Mr. SALTSMAN: Yes, your margins, just taking the last column on Supplier "C"—and I think this holds good throughout the whole thing—we are talking about 28 per cent, 25 per cent, 27 per cent. We have a margin of 31 per cent, 27 per cent, 28 per cent. This seems to be a rather high mark-up for what is essentially a per-packaged product. How does this compare with other products

of a similar nature? In other words, this is not something you are handing over a counter, which you have to cut to measure to the consumer's demands. Why is the mark-up of that nature on bacon?

Mr. CRIMP: The end result, according to the audit we did, shows the maximum obtainable margin during that particular week as being 29.53, and we end up, after everything has been taken care of—and I might add that the things that are in here do not include what we think of as labour, this is wrapping expense—it depreciates down on that particular item to 23.27, which we consider to be a reasonable mark-up.

Mr. SALTSMAN: In which way does bacon involve more labour than, say, a can of beans?

Co-Chairman Senator CROLL: He said it did not involve more labour.

Mr. SALTSMAN: In which way does this involve more labour? Take eggs.

Mr. CRIMP: I think one answer to that is that it is a perishable item, and we are talking here about the maximum obtainable. We cannot make any more than this, but we do lose some bacon, and we have to refrigerate it.

Mr. SALTSMAN: In the package the loss would be the customer's and not yours.

Mr. CRIMP: I am referring to a product which deteriorates on our premises and we are not able to sell it.

Mr. SALTSMAN: What percentage of loss would you have on bacon?

Mr. CRIMP: The loss in this particular week was 0.06.

Mr. SALTSMAN: That is a fairly low loss.

Mr. CRIMP: Yes, but I would also mention to you, as is noted on the exhibit, the note at the bottom: "80 per cent of our total bacon volume is in the advertised brand when featured."

Mr. SALTSMAN: What happens to the bacon that deteriorates? What do you do with it?

Mr. CRIMP: We throw it out.

Mr. SALTSMAN: What losses do you have on eggs?

Mr. CRIMP: I cannot answer that intelligently. We have considerable breakage in the store. Customers like to open the top of the package, and there are quite a number of them fall out, and so on. I cannot give you the actual figure.

Mr. SALTSMAN: Would you say that eggs would certainly have as great a loss as bacon, overall, if not a higher loss besause of their fragile nature?

Mr. CRIMP: I think that would be a reasonable assumption.

Mr. SALTSMAN: The mark-up on eggs runs at 12, 14, 13 per cent, less than half, in many cases, of the mark-up on Canadian bacon, yet the losses are not much different. Let us say they are equal.

Mr. CRIMP: In our presentation we referred to the intricacies of the pricing procedure in food. You are exposed at all times to things which are traditional, and it has been traditional in the over 50 years I have been in the business that eggs have been a very low mark-up item, and this continues, and this is the way it is.

Co-Chairman Senator CROLL: Mr. Saltsman, I have a long list. I will put you at the top of the list the next time round.

Mr. SALTSMAN: But I have to go to another committee, Mr. Chairman.

Co-Chairman Senator CROLL: So have these other people. Give them a chance for a moment.

Mr. SALTSMAN: I will finish in a moment.

Co-Chairman Senator CROLL: Just make it one question.

Mr. SALTSMAN: Mr. Chairman, I was very lenient with your questioning.

Co-Chairman Senator CROLL: I know. I did not hold that against you.

Mr. SALTSMAN: What has happened to Danish bacon sales lately? We have been asking questions about the availability of canned Danish bacon which was available for quite a while.

Mr. CRIMP: I noticed that referred to earlier in the proceedings, and I endeavoured to find out. My examination indicated there was so little demand for the tiny little bit of Danish bacon that came in in cans, I think the people that experimented with it gave it up as a hopeless thing. There is bacon sold in Canada which has been termed Danish cure. This is an adaptation of a Danish cure, but it is not Danish bacon.

Mr. WHELAN: Mr. Chairman, first of all I would like to ask one question on the bacon problem.

In March dressed hogs were $40 a hundredweight, in July $36 a hundredweight, and in September $34 a hundredweight. Sliced bacon was sold at $89 a hundredweight, $92 and $102, when hogs were those prices. Is there any reason for that?

Mr. FEGGANS: Sliced bacon did not follow the trend of dressed hogs. In March, 1966 bacon was $89, in July, 1966 $92 and in September, 1966 $102.

Mr. WHELAN: I bought bacon in one of your stores last Saturday at $1.23. Can you tell me the names of suppliers "A", "B" and "C"?

Mr. CRIMP: Supplier "A" is Presswood; supplier "B" is Swift (Canada); and supplier "C", Canada Packers.

Senator McDONALD: Who was the first one?

Mr. CRIMP: Presswood.

Mr. WHELAN: It appears you stopped buying from supplier "C".

Mr. CRIMP: Yes, his place was closed down due to a strike.

Mr. WHELAN: It appears it was an advantage to the consumer too! Do you own an interest in any packaging firm?

Mr. CRIMP: No.

Mr. WHELAN: Any feed firm?

Mr. CRIMP: No. sir.

Mr. WHELAN: Any fertilizer firm?

Mr. CRIMP: No, sir.

Mr. WHELAN: Any type of food processing firm at all?

Mr. CRIMP: No, sir.

Mr. WHELAN: You said that the one department you made the highest mark-up in was produce. Could you clarify that?

Mr. CRIMP: I was corrected in my statement, and I stand corrected. I would like to have it corrected here. The so-called general merchandise department where we sell health and beauty aids, pots and pans and this type of thing is the department yielding the highest margin.

Mr. WHELAN: What is the department next to that?

Mr. CRIMP: Produce.

Mr. WHELAN: Could you clarify "produce"?

Mr. CHISHOLM: Fruits and vegetables.

Mr. WHELAN: Why do you make such a mark-up on fruits and vegetables?

Mr. CHISHOLM: It is a highly perishable product with a good deal of loss involved.

Mr. WHELAN: But your net profit is high.

Mr. CHISHOLM: We do not know how to figure net profit in any product. It is almost impossible to do it. We can estimate it, but it is almost impossible.

Mr. CRIMP: I would like to answer this question in a little more detail, if I may, sir.

In the produce department we are dealing with the most highly volatile product in the store. It is much more perishable than meat or anything else we handle. Our mark-up on the study done between November 15 and 27, 1965—our maximum potential margin for all the items handled in that store in the fresh fruit and vegetable department had a maximum obtainable margin of 30.29 per cent. The end result, after everything was finished, was a margin realized of 24.30, and we would be glad to provide this type of schedule, if the committee would like to have them. These are actual audits which provide all of the actual detail.

Co-Chairman Senator CROLL: What products are covered?

Mr. CRIMP: This covers everything from apples to yams and cut plants.

Co-Chairman Senator CROLL: Will you provide that for us?

Mr. CRIMP: We will, indeed.

Co-Chairman Senator CROLL: You want that, do you not, Mr. Whelan?

Mr. WHELAN: Yes, I would like to have that. I have one other question with respect to fruits and vegetables. Perhaps I should tell you that I come from Essex County.

Co-Chairman Senator CROLL: He knows that.

Mr. WHELAN: I saw a report made by what I consider an authoritative source to the effect that when vegetables are at their lowest price to the primary producer—when he gets the least return—your stores make the most money. What I am saying is that you do not necessarily pass on the lower price to the consumer.

Mr. CRIMP: That is a question on which I do not think this committee would like to spend the time that would be necessary in going into it in all of its detail, but I would be very pleased to have some authorities here to deal with such matters. You see, you are not talking relatively, and people do not go into the type of detail—let us take an item like lettuce. This thing came up this year down in your part of the country, and it was proven conclusively that there is a letter to the federal Minister of Agriculture to the effect that the newspaper report was totally erroneous, and that letter was from the Food and Vegetable Growers' Association—an authoritative source. One of the things that are not taken into consideration is the fact that in Canada, or in Ontario, a head of lettuce at the beginning of the season is a very puffy and loose thing versus the imported variety which we have just finished handling, the iceberg lettuce, which is hard and firm, with hardly any leaves coming off the outside at all.

Mr. WHELAN: You have just made a statement as to the quality of the produce. You are not going to tell me that all of the lettuce you import is of this high quality, are you, because I have bought lettuce in your stores wrapped in cellophane with elastic around it so that it looks like a head of lettuce. Do not tell me that all of the lettuce you put up for sale in your stores is of that high quality, because I shop every Friday night when I go home, and I see what is going on in the stores.

Mr. CRIMP: Wait half a minute, sir—

Mr. WHELAN: I want to point out that I have a paper in front of me which shows that there has been a mark-up of as much as 800 per cent on cucumbers. When the producer was getting the lowest price the store had the highest mark-up on that produce. This was not in your store, by the way, but it was in

a store that marked cucumbers up by as much as 800 per cent. Yesterday there was a farmer at the meeting, and the day before he came to Ottawa he picked tomatoes in his field and sold them in 6-quart baskets for 40 cents, and before he had even unloaded them off his truck the storekeeper—and this is Dominion Stores—was selling them for 75 cents, a mark-up of almost 100 per cent with no handling whatever.

Mr. CRIMP: I think in order to answer these things intelligently, I would not under any circumstances try to indicate that we are not marking up at 100 per cent. As a matter of fact, we made specific reference to the human element in our stores with the thousands of employees that we have. I am not doubting your word about the lettuce, but I am talking about the quality of the product that is imported into Canada when the lid is taken off the crate.

Now, in connection with tomatoes, remember that in the month of October—and I am sure you are acquainted with this fact—a basket of tomatoes if held for 48 hours—let us remember that the stores today are held at a temperature of at least 72 degrees, and usually it is closer to 80 degrees, and those tomatoes, coming from the field in the month of October—well, you know what happens to tomatoes when they get into the heat. We have a potential loss of very great account. You know how water blisters form on tomatoes better than I do.

Mr. WHELAN: I think I know that if those tomatoes are picked properly and put into the baskets properly they will keep for as long as three weeks. In hotter weather than this these tomatoes will keep for two or three weeks, especially in your air-conditioned stores.

I am away off the board here, Mr. Chairman, but I brought this up because the witness said that the growers' association was erroneous in what they were saying.

Co-Chairman Senator CROLL: Mr. Whelan, you have been an excellent witness. Go ahead.

Mr. WHELAN: Now, in respect of tomatoes you made a statement here—I didn't grow tomatoes this year because of the position I now hold.

Mr. MCCUTCHEON: You didn't need to.

Mr. WHELAN: Somebody said that I didn't need to, but I will tell him that I made more money growing tomatoes than I do as a member of Parliament, and I work like hell too.

On page 2 of your submission, in connection with tomatoes, you say:

> Canned tomatoes and tomato juices are expected to be higher in price at the grower and processor level due to a short crop caused by drought in 1966.

And you added that that would be on account of heavy rains as well.

Mr. CRIMP: In some areas there were heavy rains.

Mr. WHELAN: Yes, but the phrase "at the grower and processor level" is erroneous so far as I am concerned, because these are all contracted for, and we get no more whether we have a short crop or a prodigious crop. We get nothing more. You are just taking advantage of the propaganada that has been spread about. You are importing tomatoes and you are importing peaches at a lower price than that at which we can produce them in Canada, and the consumer is being taken advantage of by that very fact. The statement that is made here is completely erroneous and false.

Co-Chairman Senator CROLL: Just a minute, Mr. Whelan.

Mr. CRIMP: I have heard Mr. Whelan's observation and with respect, sir, I would like to point out to the committee things which you know much more about than I, that the price of tomatoes for processing purposes is negotiated by a properly constituted marketing board under the authority of the Department

of Agriculture and Food of the Province of Ontario. I am told by the best authority available to me that canned tomatoes and canned tomato juice in Canada, because of no carry-over of tomatoes, particularly from a year ago, and because of other conditions, will be higher in price than they were a year ago. I shall be pleased to get the quotations for you. They will be available to you, I am sure, from the manufacturers. The price to the producer—let us make sure that we get straight—is negotiated by a properly constituted marketing board.

Mr. WHELAN: That is what I mean, and here you say that they are expected to be higher in price at the grower and processor level.

Mr. CRIMP: I expect that $40 a ton for tomatoes is a higher price, but I may be wrong.

Mr. WHELAN: It was set last spring before the crop was planted.

Mr. CRIMP: Was it higher than the year before?

Mr. WHELAN: It was $3 a ton higher.

Mr. CRIMP: I am correct, then.

Mr. WHELAN: No, you are not correct. You are blaming this on the weather and the shortage of the crop.

Mr. CRIMP: I made a statement. It is an accurate statement.

Mr. WHELAN: You know, because you are in the food business, that you are importing tomatoes from other countries at prices lower than we can produce them here in Canada.

Mr. CRIMP: Are you talking about canned tomatoes?

Mr. WHELAN: Canned tomatoes and tomato paste. There was a carry-over of tomato juice.

Mr. CRIMP: Yes.

Mr. WHELAN: And you include juice here, too.

Mr. CRIMP: Juices are going to be higher. That is my opinion. In compiling this data for the committee we did look for items that might be higher, and I would be pleased to go back and get the names of the processors from whom this information came. It is not a figment of somebody's mind. This was given to us in good faith by reputable canners.

Mr. WHELAN: It is an old game that they play. That is all it is.

Co-Chairman Senator CROLL: Have you many more questions, Mr. Whelan?

Senator THORVALDSON: These have not been questions.

Mr. WHELAN: These have not been questions. I am only correcting erroneous statements. I may not have done it in the language of big business, or legal terminology, but in my own way because I know that these things that are being presented here are not right. And, I do not have to have any senator—senators are not elected—to tell me what are questions and what are not. I was elected to look after the interests of the people, and thata is what I am trying to do.

Co-Chairman Senator CROLL: Yes. Have you any more questions?

Mr. WHELAN: No, I pass.

Mr. OLSON: Mr. Chairman, in Exhibit "C8", and dealing with the prices of apples, I notice that for McIntosh Apples on August 1 you took a gross mark-up of 30 per cent. On September 26 you took a gross mark-up of 39 per cent. Why did you need a 23 per cent or 24 per cent greater mark-up on September 26 above what you needed on August 1?

Mr. CRIMP: I would not be able to answer that immediately, sir. I am inclined to the opinion that these are apples perhaps that were C.A. apples from last year, highly susceptible to shrinkage. I am not sure, I could get the data for you. The new crop, McIntosh, I think came on the market after this date.

Mr. OLSON: After September 26?

Mr. CRIMP: I am not sure, I would like to find out.

Mr. OLSON: Now may I turn your attention to Exhibit "C7"—the price of chicken in Ontario. I notice, for example, that during a seven week period from October 26 to December 27, 1965 your cost remains constant at 35 cents a pound and your selling price remains constant at 47 cents a pound; in other words, the gross mark-up, 12 cents a pound; and that for a sixteen week period from May 16 through to September 19, 1966, while your cost and selling prices remained almost constant, it was a 16 cents a pound mark-up. Why did you need 16 cents a pound mark-up then or 25 per cent more mark-up than you needed for this mark-up late in 1965?

Mr. CRIMP: In the merchandising mix it is necessary for us to move as from item to item. The end result of all of the items we handle we submit in the other exhibit and is the final over all yield, the margin result of a meat department, and then during that certain items at certain times carry greater mark-ups, greater potential mark-ups than others.

In connection with chicken, to further answer your question, I would like to point out that this product of broilers comes to us packed in ice and we buy them on that basis. They are weighed and have to be dried out before packaging and there is a considerable shrinkage. Here is an item again requiring a greater tolerance in the weight when packaged to insure full weight when purchased.

Mr. OLSON: I understand that; but if 12 cents a pound was enough during the last seven weeks of 1965, and I presume that during that period you had this same problem of shrinkage and so on, why do you need 16 cents or a 25 per cent increase in the mark-up at another period, because these other factors of shrink, repacking, and so on, surely did not change between 1965 and the period I spoke of in 1966, did they?

Mr. CRIMP: I did not follow the question.

Mr. OLSON: You gave us a reason, being shrink and repacking, and so on, involved. Did that change between 1965 and 1966?

Mr. CRIMP: No, it didn't. I was merely pointing out a fact concerning this particular product. It did not change.

Mr. OLSON: One other point with regard to Exhibit "C7." You say there could be some change in the amount of mark-up you take on certain items at different times?

Mr. CRIMP: Right.

Mr. OLSON: But as far as breasts are concerned in these chickens, during an 18 week period from August 2 to December 27, 1965, you took 22 per cent—22 cents a pound mark-up, and for a period of 19 weeks, from April 25, 1966 right through to September 26, 1966, you took 22 cents mark-up and 27 cents mark-up. Is there any special reason for that?

Mr. CRIMP: I can't give you a specific reason, sir, other than to repeat again that we are selling a very wide range of products in a meat department. Competitive conditions on this and that, or the other thing, do not make it possible for us to realize constant mark-ups on everything. We have to adjust up and down and come to a final realized margin, which we have submitted on another exhibit.

Mr. OLSON: Are we to assume then, that your stores selected chickens which required a higher mark-up in 1966 as compared to 1965?

Mr. CRIMP: I would have to say, Mr. Olson, that in order to come before this committee we went to our records in an endeavour to put before this committee the most factual data we could find. This is what we found on chickens, and your comments concerning the cents per pound mark-up on here are as they were, and I cannot give you a better reason without going back and

getting a lot of additional data as to the items that we advertised during this week which brought our total realized margin down.

Mr. FEGGANS: If I may add to that, we have not in our notes and presentation at any time attempted to say there have not been increases in food prices. We have admitted that, and quite frankly provided you with all the background on wages, benefits, taxes, and so on, that have contributed to that.

Mr. OLSON: I will take your word for it that you required a higher mark-up on chickens between these two periods, and I suppose if your average mark-up or your average return was going to remain constant there would have to be a decline in some other products?

Mr. CRIMP: That is right.

Mr. OLSON: I would turn your attention now to Exhibit "C1", dealing with beef and pork costs. You indicate that in June 1965 you paid 47 cents a pound for sides of beef. On June 27, 1966 you paid 45½ cents a pound—a decline of a cent and a half a pound. Further on in the chart, there is a decline of four cents a pound on hinds of beef. Then I look at what you call your regular selling prices of meat cuts. For the same period, or right next to that same period, your T-bone steak and porterhouse steak and sirloin steak in 1965 was selling for $1.15, in spite of the fact that you paid less for the meat that you are now selling in 1966 for $1.19. In other words, it went up four cents a pound. At the other end of the scale, hamburg is up 10 cents a pound.

Mr. CRIMP: The sides were one and a half.

Mr. OLSON: Yes, you are right, one and a half.

Mr. CRIMP: I have no specific answer to your particular question, sir. The figures are presented to you directly from our records just as they are. I think perhaps, sir, you would recognize that the time at our disposal in order to compile this data was very, very short, and obviously one has not had an opportunity to do an exhaustive study. But I would point out again that this is the end result of the whole thing, and it has to be taken into consideration that Exhibit "C2" shows the store's gross margin percentage of meats for the first half of the year from 1961 to 1966 and the second half of the year down to 1965. That is the final answer.

This is the meat business. We, like everyone else, have to make our mix up. To come up with these figures something has to be up, and something else down. You have picked on the exhibits that show the "ups". I have not got an exhibit of the "downs," but they must have been there.

Mr. OLSON: I have so far been talking about chicken. We find an increase in the retail price as well as in the percentage of your mark-up, at least, in the amount of pounds of your mark-up. We get to beef, and we find that there is an increase in hamburg and sirloin steak, and one other product as far as meat is concerned, and I think that is pork, and I am wondering if I could find something that went down, because these things went up.

Mr. CRIMP: I would like, before we leave the base, sir, and I think it is important for the committee to note it, that we have shown for your benefit that during the year 1966 from June 13 to October 3, the price we paid for sides of beef was in excess of that paid during 1965. Would you like to go on to bulk?

Mr. OLSON: I do not understand that last statement.

Mr. CRIMP: It is at the bottom of the Exhibit "C1," regarding beef and pork costs, giving the average in each case: beef sides, 46.5 versus 45.8; hinds of beef, 56.9 versus 56.4; pork loin, 64.5 versus 58.8.

Mr. OLSON: Are you suggesting to me, then, that your mark-ups—if you want to take July or June, when you had these increases in your retail prices while you were paying less for these sides—was in anticipation of taking care of a cost increase later in the year?

Mr. CRIMP: No, sir, I would not intimate any such thing.

Mr. OLSON: Why didn't it follow? Why didn't they follow your retail? For example, in June, why don't your retail prices bear a direct relationship to your costs?

Mr. CRIMP: One reason for that could be, as we pointed out in our report, that we buy beef today that was killed two days ago, and we buy it at prices as established then. It hangs for 12 days before shipping. It goes to the stores usually on a Monday in order for preparation to take place, and is cut up and prepared for sale. That really means there is almost a three weeks lapse between the act of purchase and the act of resale. I think you will find throughout the meat industry that a given week cost does not necessarily reflect immediately, because you are not working on that animal.

Mr. OLSON: That has not changed this year as compared with last year?

Mr. CRIMP: No. It is the same thing.

Mr. OLSON: Could I turn for a moment to pork and hogs. I notice, for example, that during July of 1966 there was an increase in what you paid for pork loins every week, an increase of about three to five cents a pound. I notice you have mentioned the Canada Packers strike there. The statistics supplied to us by the federal Department of Agriculture indicate a decline of from 36.24 cents in July 1965 for grade "A" hogs carcasses down to 35.12 cents a pound in July 1966. Yet you are paying anywhere from two to five cents a pound more for loins. Do you know why?

Mr. CRIMP: I do not know the answer to that question, sir.

Mr. OLSON: Whom do you buy these loins from?

Mr. CRIMP: We can provide for you a total list of all of the various suppliers from whom we purchase throughout Canada. I think it numbers somewhere in the neighbourhood of 35 people, all H. of A. houses.

Mr. OLSON: I would like to know that, because some day we hope to have some of the packers in here. We would like to know why the cost of loins and bellies that go into bacon and so on have been going up and were substantially higher during 1966 for comparable months, in spite of the fact that the price in the livestock market went down.

Co-Chairman Senator CROLL: Very well, Mr. Olson, Mr. Crimp, you will provide that list to us as quickly as you can? We will be needing it.

Mr. MCCUTCHEON: I will not take long, as Mr. Olson has explored the bacon costs I was interested in. I will not take more time on that. However, I am concerned about Presswoods supplying cost on exhibit C3, March 5, 81; 1.19; 31.9. This is at the time when pork was $40. We get down to cost, where pork is selling, as of July, at some place between $36 in July and $34 in September. Yet Presswoods are charging 85, 89, 91, 90. How come?

Mr. CRIMP: I replied, sir, to Mr. Olson to the effect that because we do not buy hogs in the side and we have no processing operation of any kind, we have no way of knowing what people get for jowls, ears, tails, feet, and head and cheek, and such things. We could not possibly hazard a guess. We have purposely here shown the table where a dressed hog did decline and the other cuts came up. We would like to point that out, but we cannot give you the reason. I am sure this is a question you would like to direct to the packing house people themselves.

Mr. MCCUTCHEON: We are being directed towards the packing house, to look for this.

On page 7 of your submission you make this statement:

> Unless drastic cultural changes take place, distribution cannot lend itself as favourably to the application of increasing mechanism as in other fields.

Mr. CRIMP: I would like Mr. Chisholm to answer that question.

Mr. CHISHOLM: There is not the same opportunity in a retail store for mechanization as there is in large-scale agricultural production or processing. We do not know how to automate a store. We do some things but we are limited.

Mr. McCUTCHEON: What has cultural practice to do with this?

Mr. CHISHOLM: Well, having something to do with the feelings of people and so forth, both of our customers and our operators.

Mr. McCUTCHEON: On page 7, under subsection 21, you say:

> The higher gross margins have also been necessary because of the greater "value added" by the supermarket . . .

In "value added," are you referring specifically to the labour costs?

Mr. CHISHOLM: Yes, through in-store packaging and more refrigeration and so forth.

Mr. McCUTCHEON: As an educated guess, how much could a housewife save on her bill if she did not subscribe to this exotic method of packaging, etcetera? I have read where the Minister of Agriculture last week bought a lot of groceries here in Ottawa for a very few dollars, whereas his assistant bought glamorous items and it came to a great lot of money. Would there be 25 per cent or 30 per cent saving for the housewife if she did not bother with these exotic glamorous things?

Mr. CRIMP: Your question is one which is attracting a great deal of attention today. Those of us in the food industry find ourselves at a great disadvantage. Terms such as "exotic" and so on are being quipped across the airwaves and the television and the newspapers. I would like to have somebody, please, put before us a so-called exotic item, and we shall be glad to examine it together with you.

Co-Chairman Senator CROLL: Mr. Crimp, I am producing to you a small plastic tray containing ten small onions covered with a plastic cover. Here, you have got it now. The man who sent this to me from Toronto said he bought that in your store but he tried to buy some loose onions and could not get them. The man had to get them that way or he could not buy them at all.

Mr. CRIMP: I have the evidence before me now. Shall I endeavour to answer your question, sir?

Co-Chairman Senator CROLL: I hope so. That is what was intended.

Mr. CRIMP: Here again we do sell loose onions in our stores. Evidently the young man that was handling this particular sale was not on his toes, but I would like to add something to this. Mr. McCutcheon—it is Mr. McCutcheon, is it not?

Mr. McCUTCHEON: I am the selected one.

Mr. CRIMP: Mr. McCutcheon directed a question to me. He asked what saving could a customer make, not necessarily in our stores, but specifically in our stores if you wish, on a so-called bulk purchase versus this type of package purchase. I would say in answer to that question, sir, that I would have to first of all go and find out what is a bulk purchase. Do you want a 25-pound bag of onions? If you do, I would think that the saving would be considerable and we can get the answer for you. However, I would point out immediately that, if your family is somewhat similar to mine, for my wife and me this small package would be a two-week supply of onions.

Mr. McCUTCHEON: I can't eat them either.

Mr. Crimp: And 25 pounds would be a total loss in our home. I would like to deal particularly with this situation, sir. We are so accustomed to drawing comparisons without having the things being compared available to be looked

at, but it is not economical for people who do not need 25 pounds of potatoes to buy 25 pounds. They are much better off to buy one potato wrapped in foil and take it home and bake it and eat every ounce of it rather than to throw half of a 10-pound bag down the garbage chute.

Co-Chairman Senator CROLL: All this man wanted to buy was two onions, but he could not get them.

Mr. CRIMP: My wife bought two onions on Royal Road just the other day.

Co-Chairman Senator CROLL: Well, I was not there, but that was his story.

Mr. CRIMP: I'm glad that you had the exhibit, sir. I have tried to answer your question.

Co-Chairman Senator CROLL: And I have some more exhibits.

Mr. MCCUTCHEON: If I were going to buy an onion, I reckon I would rather just get one onion and drop it in a paper bag than have that package there.

Mr. CRIMP: If I may point out, sir, I cannot let your statement just go by that quickly; that one onion dropped into a paper bag, which would be at least a four-pound bag, would be totally uneconomic for us because of the cost of that bag. The cost of the bag would make the sale totally uneconomic to us.

Mr. MCCUTCHEON: I have almost come to the end of everything here. I must say that this is a most commendable brief and covers all points. However, I would like to know how much added cost is involved in the little item that is called in here "Carry-out Service". The old grocer in the old days used to walk to the door and open it for the lady as she walked out. Now we have an item here called "Carry-out Service".

Mr. CRIMP: I think I would like Mr. Feggans to answer your question. Would you care to answer that question, Mr. Feggans?

Mr. CHISHOLM: This is an example of cultural change, of sociological change.

Mr. FEGGANS: This is what we talked of earlier when we were speaking of the concentration of shopping at the weekends. Usually that is when the husband is home with the car. The modern shopper tends to buy a large supply at least once a week. Sometimes, when they are paid biweekly, they buy a bulk of two weeks' supply at one time. This is a very large amount of produce for any person to carry out to the car, so we provide young boys, mostly high school students, to perform this service. It is something that our customers appreciate. No tipping, I might add, is permitted.

Mr. MCCUTCHEON: I have one more question, Mr. Chairman, and I will get it in quickly. We have read quite a bit recently about a very expensive turnip. Are you the people who sold that turnip?

Mr. CRIMP: I made rather an exhaustive study; I do not know from whom the turnip was purchased, but I find that the highest price at which we sold turnips during the period under question was 12 cents a pound ranging down to 10 cents. I might suggest that, again, a human error could have taken place there and that the young man instead of putting 12 cents a pound, in whatever store was involved, put 22 cents. I think it was some type of human error because I do not think any of our competitors would have charged 22 cents a pound. Incidentally, a five-pound turnip is really conspicuous nowadays because normally, they are much smaller than that.

Co-Chairman Senator CROLL: We will have Mr. Choquette, Senator Carter, Senator McDonald and Senator Thorvaldson in that order. We may have to break in once or twice for Mr. Urie.

Mr. CHOQUETTE: I will be very brief. First of all, I want to commend you, sir, on the presentation of your brief as being both in French and in English. But the fact that your report on the preparation of beef was only in French is

something I almost resent. Obviously your company is predominantly French-speaking, and therefore I will ask my questions in French. Vous m'entendez bien?

Mr. CRIMP: Yes.

M. CHOQUETTE: Vous avez dit, tout à l'heure, que c'était votre intention de déposer la liste de vos fournisseurs. Est-ce qu'il s'agit de la liste complète de tous les fournisseurs, et auriez-vous également l'intention d'indiquer à côté de chaque fournisseur, le montant que vous payez?

Mr. CRIMP: Your question, sir, has to deal with the list of suppliers we referred to. The list will be what we call our composite list. Each of our districts sends in the list of its meat suppliers because of our insistence that meat in our stores must be 100 per cent meat processed in plants operated under the federal Government Department of Agriculture Health of Animals Branch inspection, so that we have a composite list and that is the list we will provide.

It will cover all of Canada. In answer to the second part of your question, relative to our purchases from each, this would be an extremely difficult thing for us to compile, since in our operation spread from Newfoundland to Vancouver we purchase from different branches of these houses, and in our accounting system the invoices for meat are all mixed in with the other invoices from that individual store. We would have to go through every store's invoice.

We can, I believe, do a pretty good job of trying to indicate to the committee a ranging of suppliers in order of importance, let us say.

M. CHOQUETTE: Ce qui m'inquiète dans ça c'est que les versements que vous effectuez aux fournisseurs se chiffrent par 401 millions de dollars, ce qui correspond à peu près à 80 pour 100 du chiffre d'affaires. Est-ce qu'il est possible, par exemple, que vos plus gros fournisseurs soient des compagnies sur lesquelles vous exercez un contrôle vous-mêmes?

Mr. CRIMP: To answer the parts in this question, we will have to try taking them one at a time. Your first comment, sir, was relative to the percentage of our total purchases to our sales. The figures indicated there are a breakdown of the dollar and indicate the purchases of all merchandise.

In answer to whether or not we exercise any control, the answer is no.

M. CHOQUETTE: Une dernière question. Je remarque qu'il y a trois magasins qui ont fermé depuis l'an dernier. Est-ce le cas?

Mr. CHISHOLM: What was that again—three stores?

Mr. CHOQUETTE: There were three stores closed.

Mr. CHISHOLM: There were more than that.

Co-Chairman senator CROLL: He said some 20 stores were closed.

Mr. CRIMP: The figure there, Mr. Choquette, I think is the net result of openings and closings, so there might be "X" number from last year and this year, but we did close, I think, 25 stores.

Mr. FEGGANS: Twenty-one.

Mr. CRIMP: Twenty-one, and we opened 26.

M. CHOQUETTE: Il y a une dernière question que je voudrais vous poser. Je l'ai posée hier aux témoins qui comparaissaient, et j'ai l'impression qu'à répéter cette question—en la posant à chaque témoin qui fera son apparition ici, ça peut peut-être donner des résultats. Voici.

On remarque souvent, sur des produits qui sont à l'étagère dans les grands magasins à chaîne, ce collant que vous appelez en anglais un "sticker", sur lesquels on indique une publicité mensongère comme les suivantes:

29¢. off, 49¢. off—29 sous de moins, 49 sous de moins—

tout simplement pour suborner le consommateur et lui faire croire qu'il paiera moins cher, alors qu'en réalité, c'est faux. Je voudrais vous demander quelle est

votre opinion au sujet de cette publicité et est-ce que ce ne serait pas votre intention de la combattre aussi énergiquement que possible?

Mr. CRIMP: The answer to the question, Mr. Choquette, relative to this is that our company, together with the industry at large, have endeavoured to discuss these matters with our suppliers, and I would say there is a greater area of understanding today between us, and progressively that will improve.

In answer to the other part of your question, I believe that when it is 29 cents off it is 29 cents off the full regular selling price. I want to be specific about this because I do not wish to be misunderstood. Let us say a regular selling price of 89 cents. We might have advertised that item at 83 cents at some time during the last six months, but the full regular selling price is 89 cents, so 29 cents off would be off the full regular selling price and not off a normally advertised price.

To the best of my knowledge, sir, that particular area of operation is being watched very closely by ourselves and the entire trade, and we are finding excellent co-operation with all our suppliers in this field.

I think it is a fair statement to say that there are some companies who have discontinued the practice entirely, and there is much less of it today than was involved during the past three or four years. So I think you will find your questioning in this area is landing on very fertile ground, and you are in an area in which we are all endeavouring to do a good job for the consuming public.

Senator CARTER: Mr. Chairman, I should like to begin with one question on Exhibit "C3," again having to do with national brands. Your commodities which are put up according—

Co-Chairman Senator CROLL: Exhibit "C3" is not national brands. I think Exhibit "K" is national brands.

Senator CARTER: No, I am sorry. This is the national brands I am talking about.

Co-Chairman Senator CROLL: Exhibit "K", is it not?

Senator CARTER: Yes, Exhibit "K". Let us take a product like detergents which was mentioned, I think, by Mr. Saltsman earlier this morning. You do not manufacture your own nominal brand; somebody else manufactures that for you, is that right?

Mr. CRIMP: That is correct, sir.

Senator CARTER: The company or the manufacturer that produces this product which you label as your nominal brand, does that manufacturer also have a national brand?

Mr. CRIMP: Yes, he does.

Senator CARTER: What does his national brand sell for? Could we have the name of the person who manufactures it?

Mr. CRIMP: The former Javex Corporation, commonly known now as a division of Domtar. I believe I am correct when I say the brand name is "Gay" under which they merchandise their own product.

Senator CARTER: Do you carry his national brand lines in your store as well?

Mr. CRIMP: Yes, sir.

Senator CARTER: What would be the price of that national brand, as compared with your own?

Mr. CRIMP: I have not that information immediately available, but we would be glad to get it.

Senator CARTER: Thank you, sir. I have one or two other questions.

On the first page, section 3, you say:

> Food costs have been influenced by: higher purchase price to retailer; improvement in the nature of products (e.g. upgrading quality); higher operating expenses.

Can you say whether these have all had effect, or which of these factors have had the most effect?

Mr. CRIMP: I would like Mr. Chisholm to deal with the question.

Mr. CHISHOLM: I do not believe we can answer that quickly, senator, unless you can get it from our annual report showing two years or more of operating results showing the cost of goods sold compared to sales for several years. That would give the one factor of the increase in our costs, and we have our expenses, and compare those for several years, but I cannot give you them off hand. We could work that out.

Senator CARTER: There is not one of these three outstanding which would make the other two rather insignificant?

Mr. CHISHOLM: I do not think so. It would vary a great deal from product to product too.

Senator CARTER: On page 5, section 12, you say:

> A typical supermarket equipment cost in 1966 is 34 per cent over 1961.

Mr. CRIMP: Which page are we on, senator?

Senator CARTER: Page 5, paragraph 12. Would that equipment be more efficient? Would there be any offsetting efficiency as compared with the equipment in 1961?

Mr. CHISHOLM: Certainly, and this is one of the things that helps to offset other rising costs, or to keep price increases to a minimum.

Senator CARTER: So that the net effect is not actually 34 per cent in your overall?

Mr. CHISHOLM: In a manner of speaking, that is right.

Mr. FEGGANS: It costs 34 per cent more to equip a store, but not with identical equipment?

Senator CARTER: Yes.

Mr. CHISHOLM: That is right.

Senator CARTER: But that increased cost at the same time lowers your operating expense?

Mr. CHISHOLM: It could be it helps to do that. Put it another way, it also helps to get the product to the consumer fresher and in better condition. There is more refrigerated equipment going into stores all along, and so on.

Senator CARTER: Does your company make use of loss leaders?

Mr. CHISHOLM: We try not to lose money on anything we sell. We do sell some products at lower margin than our average—for instance, turkeys or eggs. It is traditional for us to take a much lower margin than our overall cost of doing business. That is why we have to have higher margins on other products. We never use the phrase "loss leaders" ourselves; we certainly try to avoid it. Occasionally we have to sell things at a loss of which we have an excess supply or something like that.

Senator CARTER: I think you made a statement that the price of bread in October is the same as it was in March?

Mr. CHISHOLM: Yes.

Senator CARTER: What is the price of bread in your store today?

Mr. CRIMP: Twenty-four cents a loaf, for a sliced white loaf weighing 24 ounces.

Senator CARTER: Twenty-four cents for a sliced 24-ounce loaf?

Mr. CRIMP: Right.

Senator CARTER: Is it selling in other stores cheaper than this, do you know?

Mr. CRIMP: I do not think so. I think our price is as low as those of other supermarkets.

Mr. FEGGANS: We are quoting there our largest volume seller; there are other prices.

Mr. CRIMP: There are other sizes too.

Senator CARTER: Mr. Chairman, I do not want to take up any more time.

Co-Chairman Senator CROLL: You have been very short. If you have something further, perhaps I can influence you more than I can my friend. I have Senators MacDonald and Thorvaldson and Mr. Olson. I must get in Mr. Urie because he has some specific questions to ask.

Senator MCDONALD: I have very few questions, senator.

Mr. Crimp, you told us you own 380 retail stores in Canada and two wholesale, one in Montreal and one in Toronto, is that right?

Mr. CRIMP: Yes.

Senator MCDONALD: I think you have been asked whether you had any other controlling interests in stores and wholesalers in Canada, and your answer was: No.

Mr. CRIMP: No.

Senator MCDONALD: Have you any minority interest in any retail outlets in Canada?

Mr. CRIMP: No.

Senator MCDONALD: Have you any investments in the United States?

Mr. CRIMP: Mr. Chisholm, would you like to answer that question?

Mr. CHISHOLM: No.

Senator MCDONALD: Have you any investments outside of Canada?

Mr. CHISHOLM: No.

Senator MCDONALD: In Exhibit "M" you show a return on your capital investment of 6 per cent.

Co-Chairman Senator CROLL: What is the document?

Senator MCDONALD: Exhibit "M". From 1962 to 1966 it runs at roughly 6 per cent. Does that include the return from investments and sales, and the return from your wholesale and retail operations?

Mr. CHISHOLM: Yes.

Senator MCDONALD: Are the only investments you have, apart from your investment in wholesale and retail operations, included in your consolidated balance sheet under the heading of: "Short term investments—at cost, which approximate market value?"

Mr. CHISHOLM: Yes.

Senator MCDONALD: Would you tell us what those short term investments are? Are they debentures, bonds, common stock—

Mr. CRIMP: Short term notes. I think we use short term notes almost entirely.

Senator MCDONALD: Is this only to use the money over a short period of time, and is it the plan of your company to put this capital into plant and improvements?

Mr. CHISHOLM: Yes.

Senator McDONALD: The next item on your consolidated balance sheet is: "Mortgages receivable". What would this be?

Mr. CHISHOLM: They are—I think Mr. Bolton, one of our top financial people, will be able to answer that question.

Mr. Thomas G. Bolton, Director of Strategic Planning, Dominion Stores Limited: These are on some properties that we have come out of, and taken back in turn mortgages on them.

Mr. CHISHOLM: It is very incidental to the whole operation.

Senator McDONALD: I think you told the committee earlier on that your prices might vary from one area of Ontario to another in your retail stores because you have, I believe you said, 13 regions in Ontario.

Mr. CRIMP: Not in Ontario, but in Canada.

Senator McDONALD: Thirteen regions in Canada?

Mr. CRIMP: Right.

Senator McDONALD: Would the prices on all your products be the same in any given region?

Mr. CRIMP: Not necessarily.

Senator McDONALD: Why?

Mr. CRIMP: In the operation of our business we find it important for us to have regard to competition within what we call the trading area of a store. We endeavour to maintain, and further develop, our consumer franchise by endeavouring to be competitive within that trading area.

Senator McDONALD: Thank you. Is there any consideration given to setting the price of a given product in a given store to the average income of the people who live in the area?

Mr. CRIMP: I do not—

Mr. CHISHOLM: I think we can answer that in another way. We endeavour to put into our stores the kind of merchandise that will be bought by people of the income level of that area. It is more in terms of types of merchandise rather than necessarily a percentage mark-up.

Senator McDONALD: But for the sake of argument, there are branded products, such as coffee, that are used by people regardless of their income. Let us take for example Vel—I think that that is the name of a detergent. Would it be the same price in a store in Toronto located in a very high income area as the price it is sold at in one of your stores located in a low income area of Toronto?

Mr. CRIMP: I think the answer to that question is that it would be the same price in both areas. The product being the same, a branded product, it would have the same price—with the exception as noted in connection with competition within a trading area.

Senator McDONALD: I have one more question. You said "a branded product". Would that include your own brands?

Mr. CRIMP: Our own brands and company brands are branded products, because of the fact of our operation being a nationwide operation then immediately our company brands, in that sense of the word, become national brands.

Senator McDONALD: Does the answer you gave me originally in respect of Vel selling for the same price in the high wage area as in the low wage area,

mean that your brand of the same product—whatever you call it—would also be the same price?

Mr. CRIMP: That is right.

Mr. SMITH: Two or three minutes ago one of the questioners was asking you about whether or not Dominion Stores owned any supplier companies. By way of a supplementary question I would like to reverse it and ask who owns Dominion Stores Limited? Is Dominion Stores Limited substantially owned by suppliers, for example? I come from Simcoe County where we have Salada-Shirriff-Hersey Ltd.—are they a substantial owner of Dominion Stores?

Mr. CHISHOLM: No, they are not, sir.

Mr. SMITH: Is there any company that is a substantial supplier of food products that is a large scale shareholder in Dominion Stores?

Mr. CHISHOLM: Not a very large scale shareholder. We have 10,000 shareholders, and I do not know of any supplier company that has any enormous holding of shares. There is a number of them that do own some shares. I think our best way of answering your question would be, perhaps, to get you a list of shareholders.

Co-Chairman Senator CROLL: No, that is not what he is getting at, I am sure.

Mr. SMITH: I am thinking in terms—it has been said that if a corporation owns ten per cent of another company it can influence the course of that company's management. Do Salada-Shirriff, or do any Canadian packing companies, such as Swift's, own a sufficiently large block of shares that they are able, if they wanted, to influence the course of purchasing of Dominion Stores?

Mr. CHISHOLM: No, they do not. Perhaps Mr. Shaw, our secretary and General counsel, might have a view on that.

Mr. N. H. Shaw, Q.C., Vice-President and General Counsel, Dominion Stores Limited: I think I can substantiate what Mr. Chisholm has said. One big supplier does own a small percentage of our shares. That is the only instance I know of.

Senator McDONALD: I have one supplementary question. How many shareholders would it take to hold 51 per cent of the shares of your company?

Mr. SHAW: I cannot tell you the number of shareholders. It would depend on the number of shares involved.

Senator THORVALDSON: I will be very brief in the questions I shall ask. They relate to page 5, paragraphs 9 and 10, namely, the costs of operation and the increase in labour costs, and other matters in that area. I will just read from page 5:

> Our own company is no exception, with wages representing the largest component in the inflationary force, being about 50 per cent of our total operating expense.

Then, I refer you to Exhibits "E1", "E2" and "E3". Starting with Exhibit "E2", if you would refer to that, Mr. Chisholm, I observe that the increase in your labour costs seems to be 28.6 per cent in 1966 over 1961.

Mr. CHISHOLM: That is right.

Senator THORVALDSON: And then, of course, on Exhibit "E3" there is a reference to the increase in employee benefits, that is indicated as 38.4 per cent. The big increase is between 1965 and 1966, and is 9.9 per cent.

Then, referring to Exhibit "F", that relates to expenses, and to income tax, business taxes and property taxes. The increase there over the years from 1962 to 1966 is 38.7 per cent.

My question is: Is it possible to make a calculation in regard to just what effect those costs have had on the inflation in food prices that we know has occurred at the retail level during the last few years? In other words, some companies, as has been referred to, are able to offset such increases by automation, and so on, which you obviously are not able to do. I think everybody knows that. Is it possible to make a calculation in regard to what effect those increased costs—taxes, sales taxes and other things—have had on food prices during this period?

Mr. CHISHOLM: Senator, I think it would be well worthwhile trying to make this calculation. We have not done it, but it might be a very good thing to do. We will undertake to try to do this, and see what we can produce for this committee.

Senator THORVALDSON: I presume the economists of the committee will try to do this as well, but let us take one item, the increase in sales tax in the Province of Ontario from 3 per cent to 5 per cent. Would that create an inflationary effect of 2 per cent, would you think?

Mr. CHISHOLM: Certainly.

Senator THORVALDSON: Similarly, could you, for instance, estimate the inflationary effect of an increase of salary of 28.6 per cent, as indicated on Exhibit "E2"?

Mr. CHISHOLM: Yes, we can do that.

Senator THORVALDSON: It seems to me that these are matters that would be of interest to the committee. For instance, I refer now to Exhibit "E3", which includes a heading, "Average weekly cost pension plan per employee." For 1966 the figure is $3.55 per week, is it not?

Mr. CHISHOLM: Yes.

Senator THORVALDSON: Woud that be an inflationary item?

Mr. CHISHOLM: Yes. Senator, in our annual report we have a figure, I think it is $900,000 which will be the full annual cost of the new pension plan when it is fully effective. It went into effect on January 1. That will certainly have an inflationary effect.

Co-Chairman Senator CROLL: How many employees are covered?

Mr. CHISHOLM: About 9,000 employees are covered, regular employees, and some of the part time.

Senator THORVALDSON: May I ask if that is over and above previous pension costs?

Mr. CHISHOLM: No, it is an integrated plan.

Senator THORVALDSON: And I observe from Exhibit "E3", as was indicated, that employee welfare benefits have increased by 38.4 per cent, between 1961 and 1966. No doubt that would be an item of an inflationary nature?

Mr. CHISHOLM: Yes.

Mr. FEGGANS: If I may add to the answer, it does not necessarily follow that this is the full impact, that this increase would be reflected in higher food costs. We endeavour in our company constantly to find ways and means to offset rising costs and we have been successful in a certain degree.

Senator THORVALDSON: The fact is that you are only one of the agencies in the line between the producer and the consumer?

Mr. CHISHOLM: That is right.

Senator THORVALDSON: And consequently the costs of the producer would be up?

Mr. CHISHOLM: Certainly.

Senator THORVALDSON: And also those of the manufacturers?

Mr. CHISHOLM: That is right.

Senator THORVALDSON: You are the third in line as retailer?

Mr. CHISHOLM: That is right.

Senator THORVALDSON: And all those items will contribute to the cost of food.

Mr. FEGGANS: And transportation.

Senator THORVALDSON: As well as transportation.

Co-Chairman Senator CROLL: We find that we shall require a list of shareholders who hold more than five per cent of stock.

Mr. CHISHOLM: Certainly.

Mr. OLSON: I have a question which relates to "Mainly because of the meat." I notice your hamburg prices, according to the exhibit that you have filed with us as supplementary "C1", that all through the period from June to September you have a constant price of 49 cents a pound, that is, your regular selling price. I also notice that this compared very consistently with the prices that were taken for that same period by the Dominion Bureau of Statistics, in what they call the, "Average retail prices in Canada of selected food items", and the average in June was 49.4, and in July 1965, 50.2. If we go to 1966 we find that your price for hamburg remains constant throughout the entire period at 59 cents a pound. The D.B.S. figures show the average retail price for Canada for this period went up only to 56.5 for June; but in 1965 your average price of hamburg was right in line, that is, your selling price, with the average that the D.B.S. found. By 1966 yours had gone up 10 cents a pound, and the average of the D.B.S. found at retail level was somewhere between five and six cents a pound increase. This looks as though you marked yours up almost twice as much as the average.

Mr. CRIMP: I would like to point out to you, sir, the inadequacies of the presentation that we were able to prepare for this committee. I submit for your consideration, with respect, that D.B.S. figures are a total Canada compilation, whereas we are presenting here for the committee the best we could do within the time at our disposal, and we have selected Toronto.

Mr. OLSON: In your opinion then, this price for hamburg has gone up more in Toronto than in the other parts of Canada?

Mr. CRIMP: I have a young man here who is manager of our research department, who is very able, and I think he has an answer that I would also like to hear.

Mr. John Nestor, Manager of Research, Dominion Stores Limited: If you look at the figures you are referring to, sir, you will find that in Toronto the food prices have gone up at a faster rate for the last year than other cities across Canada. So you are giving an average figure for all Canada, whereas we are giving a figure for Toronto.

Mr. CRIMP: May I just add a little to that. I notice that your question, sir, referred to our friendly jingle, "Mainly because of the meat." Dominion Stores Limited with regard to hamburg, endeavour to maintain a ratio of 15 per cent fat and 85 per cent lean. Government regulations require 30 per cent fat and 70 per cent lean. We endeavour to have a good product.

Mr. OLSON: Yes, I accept that, but that has not changed from 1965 to 1966?

Mr. CRIMP: No, sir.

Mr. OLSON: There appears to be about twice as much mark-up on this same hamburg in your stores as across the country.

Mr. CRIMP: I have to refer you back, sir, and I am sure you will read it carefully, where we give you the final result of our meat departments over a long period of time.

Mr. URIE: Mr. Crimp, arising out of an answer given to Mr. Olson's question by Mr. Nestor: During the course of the questioning reference was made to a survey made I believe by the Ontario Hydro Electric Employees Association of ten cities which showed that food prices in all cities in the survey were up to 8 per cent higher than those prevailing in Toronto, yet Mr. Nestor just made the statement that food prices in Toronto had risen more quickly than in other cities in Ontario.

Mr. NESTOR: I said higher in Toronto than in other cities in Canada, sir. D.B.S. figures are based on ten cities from St. John's to Vancouver. I was not referring to other cities in Ontario.

Mr. URIE: Then as to the survey of 26 selected items in ten Ontario cities, the price range was from 8 per cent or 8½ per cent and higher than in Toronto. Why?

Mr. CRIMP: I cannot give you the answer to that, sir. If I had the list available it would help us to study if for you.

Mr. URIE: All right, sir, we will try to obtain it.

Mr. CRIMP: This is the type of thing I made reference to earlier. If we can come down to specifics, if we could have a list, we could examine to the best of our ability anything the committee would like us to look at.

Mr. URIE: We would appreciate that, because I think we are interested in the geographical spread of prices. May I also ask a question with respect to your inventory policy. What happens to inventories on hand in Dominion Stores when prices rise, say, on a can of peas. Supposing on a new stock of canned peas the price rises two cents a can; what happens to the inventories of canned peas you have on hand?

Mr. CRIMP: This is a good question and one which requires answering. We endeavour, sir, to move out the item purchased at the lower price to the best of our ability, at the old price. Because of the varying natures of an inventory per store, the storage ability being a factor, it is impossible for us to determine a given moment in time when the inventory is all gone. We cannot let it all be gone or we would be out of the product. We have to establish a new selling price at the higher cost, and there are inventories, minimal, some store might have more, but we do have to establish an area price, in order to be able to move out the new item at the new price and sell it at the right price.

Co-Chairman Senator CROLL: Do you usually do that? How do you put the new price on?

Mr. CRIMP: We use different methods. One is that we have a "come clean" sticker on some items, and on others we used a marker.

Co-Chairman Senator CROLL: You rub out one and put on the other one?

Mr. CRIMP: That is right.

Co-Chairman Senator CROLL: Do you get any complaints from customers who see the old one?

Mr. CRIMP: We do, and wherever we do we endeavour to take care of it.

Mr. URIE: We get a great many letters in here. We had one from a lady in Ottawa last week, who stated she shopped in one of your stores and got a can of peas on which there were four different prices, the bottom one being the lowest. This is the type of thing that bothers the consumer.

Mr. CRIMP: It really bothers us, and we are working on this constantly, and not as a defence,—I am not defending the position at all.

Mr. URIE: I understand.

Mr. CRIMP: I would point out that our practice is that we advertise a can of peas, let us say at 15 cents; the regular selling price is 17 cents; there is a new cost in, and the new selling price comes out at 19 cents. The 15 is the advertised price and it is likely that someone did not erase the old one. We have the human element and we are not complaining about that. This is our job, to run our business better.

Mr. URIE: All you are saying is that, as a matter of policy, the company policy is against that type of thing?

Mr. FEGGANS: If I may add, the presence of several price markings, some of them illegible, does not necessarily mean that they have all been increases. There may have been a weekend special which necessitated erasing the price and putting the special price on. Then, if all that merchandise were not sold and the old price came back, it would have to be erased and priced again. I would also like to add that we operate, as Mr. Crimp described, by attempting to find the right moment when the inventory is almost gone, before we impose new higher prices. We do the same thing when our price decreases.

Co-Chairman Senator CROLL: Mr. Crimp, I am producing to you part of a carton. This comes from Dominion Stores, Park Avenue, Montreal. It is Kellogg's corn flakes, 33 cents, marked over with 41 cents. The information is, in Exhibit "C8," that the gross mark-up on Kellogg's corn flakes, March to August, appeared to be the same. You notice there is an increase, he says, of eight cents between September 5 and September 15, yet your report indicates that this remained stationary.

Mr. CRIMP: We have totally no defence for this, in any way. As far as the price of Kellogg's corn flakes is concerned, the cost to us has remained reasonably constant throughout the period under review. I can only say that somebody—and this happens, too, as there are different items of Kellogg's—some clerk conceivably got the wrong price on here in the first place and then put the right one on.

Co-Chairman Senator CROLL: And the second price is the error?

Mr. CRIMP: Usually the customer would think the 41 cents was the error.

Co-Chairman Senator CROLL: That is what I think.

Mr. URIE: To change the subject a little, sir, on page 3, paragraph 5(b), you make reference to specials. We have a great deal of correspondence addressed to the committee, and in addition there are many newspaper items, referring to specials. Apparently, there are two subjects which bother people. The first is that they go into a store which has advertised a special—I am not saying it is your store, take any advertising supermarket—and probably early in the first day of the sale they are told it is all out of stock. What is the policy of your organization with respect to that situation?

Mr. FEGGANS: We have for some five or ten years maintained a supply at all stores of a raincheck on specials. It is a small printed piece of paper, given to the customer; and if the item is sold out—we endeavour not to sell out, but if we do—we guarantee that that customer will be able to buy that product at the special price the next time it is available in the store.

Mr. CRIMP: Could I add to that, that that is not necessarily the same week. If the customer came back the following week, after the special adveritising is over, she would still get it at the same special price.

Mr. URIE: She has just to produce the raincheck?

Mr. CRIMP: That is right.

Mr. URIE: The second matter to which a great deal of reference has been made is the fact that on Wednesday and Thursday all supermarkets have tremendous advertising programs for the weekend. I have noticed in paragraph

5 it is said that usually your specials are made possible through sizeable advance buying on popular seasonal foods. Can you explain how it is that, almost without exception, the five or six supermarket chains have different specials on the same week?

Mr. CRIMP: Different specials on the same week?

Mr. URIE: Yes. One may have chickens, another may have a special in beef, another may have a special in lamb. Is there any conferring amongst the supermarket chains to determine that variation?

Mr. CRIMP: There is no conferring, sir; but I would suggest that, if all of the supermarkets in Ontario featured broiler chickens in the same week, there would not be enough to go around.

Mr. URIE: That may be the answer.

Co-Chairman Senator CROLL: What do they do? How do they read each other's minds? How do you tell what Steinberg is going to offer on Wednesday?

Mr. CRIMP: We do not know what Steinberg is going to offer, but we do start well in advance to arrange for the supply of chickens with our supplier and we tell him the approximate quantity we are going to require for that week and we endeavour to give him the ability, to whatever extent he can do it, to build up his inventory to take care of the fantastic increase that takes place.

Mr. URIE: So you assume that the other supermarket chains do exactly the same thing, and if you happen to go to your supplier of chickens with a tremendous bulk order for specials, and if Steinberg do exactly the same thing on the same weekend, there would not be sufficient chickens to go around?

Mr. CRIMP: I would think our supplier might say to us—assuming we were the people who wanted to buy the chickens—"My supply is not so hot this week, how about the third week in November?"

Mr. URIE: Which would indicate to you—?

Mr. CRIMP: We would assume that somebody else got there before us.

Mr. URIE: Another source of complaint has been the vast variety of packaging in certain items. There was some testimony yesterday, during which Co-chairman Senator Croll mentioned that a woman wrote in, sending a long chart on which there were shown ten different prices and packages of detergent. She also gave instances of canned goods, and so on. The first question is, in your own company branded lines, do you have this vast variety of packaging, or do you attempt to standardize?

Mr. CRIMP: We endeavour to limit the range of sizes. This is very difficult. Take instant coffee—some people want two ounces, some want six ounces, some want ten ounces. We think that three sizes is about right and we deliberately drop certain sizes in the interests of cutting down the range.

Mr. URIE: Have you done that in the interests of cost savings to the consumer?

Mr. CRIMP: Where it is possible to do that; but it is more in the interest of not having so many items that we are unable to make a proper display of any of them.

Mr. CHISHOLM: Over all, eventually, it will tend towards more efficient distribution and we are in favour of this. I should mention that this is a movement that is going on all the time. We are constantly adding things to our shelves and taking them off. This is done when the movement of an individual item or size is not sufficient to warrant carrying it. It is the consumer who tells us that.

Mr. URIE: There would also be, in standardization, an element which would mean more comparability in prices and costs?

Mr. CHISHOLM: Yes.

Mr. CRIMP: If I may say so, Mr. Urie, we happen to be in the food business and this committee is dealing specifically with food, but the questions have been pointed toward detergents and the number of different-sized packages. However, I become so confused today with the range of sizes, shapes and whatnot of automobiles that I do not know one from the other any more. I think there are more types of automobiles than there are detergents.

Mr. URIE: In any event, what we are endeavouring to ascertain is whether that multitude of packaging adds to the cost to the consumer. I would imagine that it does.

Mr. CHISHOLM: To some degree.

Mr. URIE: I think it takes away from the comparability. One woman pointed out that for similar items like toilet paper one firm has 5,200 sheets and another firm has 4,000. How can you compare the two rolls? That concludes the questioning that I have at the moment. However, Mr. Crimp and Mr. Chisholm, yesterday the A&P stores provided us with certain information which they initially declined to give, as being of a confidential nature. They did provide the information to us so that, in fairness, we feel that your company, if given this information, could set it up in exactly the same way for the benefit of the committee.

Co-Chairman Senator CROLL: Well, you had better make reference to it.

Mr. CHISHOLM: We have actually given a great deal more than we heard last week. We are delighted to give anything further that the committee would like to have.

Mr. URIE: I will give it over to you.

Mr. CRIMP: One thing, Mr. Urie, that I would like to point out to the committee is, I think, that you said, sir, that we, having this confidential information given by another witness, could prepare ours in the same fashion. I would point out, although I defer to some of our financial experts here, as a layman I would find it very difficult to comply with your request unless I knew what the components were.

Co-Chairman Senator CROLL: We will clear it up, then. The first is one comparison of retail markups, 65 and 66. There is the sheet. It is on the record. There is no difficulty about that. The other is Personnel, Operating and Maintenance, 1961 to date. There should not be any trouble about that.

Mr. CRIMP: Mr. Chairman, this is the type of thing that I would ask Mr. Chisholm to speak to, but I would say that Dominion Stores Limited have presented the full and total cost of all expenses in the report we provided to the committee.

Mr. URIE: I think undoubtedly you have.

Mr. FEGGANS: If I may make a suggestion, the statements in the annual report, as Mr. Crimp has said, cover every item, and I would suggest that others might be asked to comply with that.

Co-Chairman Senator CROLL: They will be asked to comply with that.

Mr. URIE: That is a good point.

Mr. CHISHOLM: Excuse me, senator, but to use this information we need the detailed components.

Co-Chairman Senator Croll: I think what you said is right. With respect to the personnel, operating and maintenance, it is covered in your report. I think the statement of sales and profits after taxes is also covered in the report. So we will deal with this other document which is not.

Mr. CRIMP: You would like us, sir, to provide for you our selling prices and margins under these items?

Co-Chairman Senator CROLL: In exactly the same way, so that in the end we will be able to look at ten of them, or as many as we have for comparability.

Senator MCDONALD: What size of package do you sell side bacon in?

Mr. CRIMP: We, basically, sell 8-ounce and 16-ounce packages; half-pound and one pound.

Senator MCDONALD: Do you have any 12-ounce packages?

Mr. CRIMP: I think that we have 12-ounce packages in some of our stores. There is a new brand of very excellent quality bacon which is put up in a 12-ounce package.

Senator MCDONALD: Is it put up by one of the regular packing companies?

Mr. CRIMP: It is put up by a properly inspected H. of A. packer.

Mr. JOYAL: Referring to your 10-year statement of earnings, it indicates, taking 1960 as a base year, the net earnings per share have increased from 74 cents to $1.32. Is that correct?

Mr. CHISHOM: Right.

Mr. JOYAL: Representing an increase of, roughly, 56 per cent.

Mr. CHISHOLM: Whatever that is, yes.

Mr. JOYAL: This is also for the record: Your dividends per share during that same five- or six-year period have increased from 25 cents per share to 72 cents per share?

Mr. CHISHOLM: Correct.

Mr. JOYAL: Which is an increase of approximately 175 per cent. Is that also correct?

Mr. CHISHOLM: Correct.

Mr. JOYAL: Thank you.

Mr. CHISHOLM: I do not know what the percentages are. I have not worked those out.

Mr. WHELAN: I wanted to ask a question that was not clarified. Are there ever any meetings between the buyers of your companies on the produce they are going to buy?

Mr. CRIMP: Between whom?

Mr. WHELAN: Between all the buyers of the chains.

Mr. CRIMP: Definitely not at any time.

Mr. WHELAN: They never get together to discuss prices?

Mr. CRIMP: No, sir.

Mr. WHELAN: How much produce would you keep on hand, say, if there were a shipping strike? How long could you run your stores if all shipping were cut off?

Mr. CRIMP: That is a difficult question to answer, but I could answer that of recent date, when we knew that there was an embargo being placed on imports from the United States, we took action as rapidly as possible to take care of the imports of oranges and that type of thing. In connection with domestic items we do not have the same problem, because most of our domestic supplies are moved by transport.

Mr. WHELAN: If you buy produce in Leamington, do you distribute it to the stores there rather than take it to Toronto and reship it all the way back to Leamington?

Mr. CRIMP: In answering that specifically, our Toronto plant would not handle the product for the Windsor, Sarnia, Chatham area. That would be delivered direct by one of the wholesalers who service us in that area. We do it

another way. For instance, in Hamilton we quite likely pick up a truckload of our produce and distribute it in Hamilton and then we bring on four or five loads to the plant in Toronto. We endeavour, sir, to the best of our ability, not to spend one more cent on transportation than is necessary.

Mr. Whelan: It never gets double-hauled?

Mr. Crimp: I would not say it never gets double-hauled, but I would say that it only gets double-hauled such a small percentage as to be not noticeable.

Mr. Whelan: Say that I am a processor selling you canned goods. How often would you pay me? How many days do you have the produce before you pay me?

Mr. Crimp: I am not quite with you.

Mr. Whelan: Say that I am a processor of ketchup and I deliver it to you. How long do I have to wait before payment?

Mr. Crimp: If you deliver it this week and we get your invoice by Thursday of this week, we pay you Thursday of next week.

Co-Chairman Senator Croll: Mr. Crimp, I wish, on behalf of the committee, to thank you and your associates for giving us a very informative morning. You appreciate that this is a preliminary canter. We have to make an extensive examination of the evidence you gave. In addition to that, you have undertaken, and I am positive you will fulfil the requests made by the committee, to give some further information. In addition to that there will be information supplied by people in similar lines of business. After that we shall have you back. I am sure that you will be back again, because there were some subjects that we did not have an opportunity to touch upon. On behalf of the committee I want to thank you very, very much for being so frank and open.

Mr. Whelan: Mr. Chairman, may I ask one question of you? Will the committee be printing all of these exhibits?

Co-Chairman Senator Croll: These are provided for the members of the committee.

Mr. Whelan: I object to the editorial being printed.

Co-Chairman Senator Croll: Thank you very much, Mr. Crimp.

The committee adjourned until 3 p.m.

EXHIBIT A

Year Ended	Sales $ (000)	Gross Margin* Ratio to Sales	Total Operating Expense Ratio to Sales	Corporate Income Tax Ratio to Sales	Net Profit after Tax Ratio to Sales
		%	%	%	%
March, 1962	408,173	19.68	15.93	1.90	1.84
March, 1963	427,017	20.16	16.24	2.02	1.90
March, 1964	459,346	20.64	16.41	2.20	2.03
March, 1965	487,735	21.20	16.90	2.23	2.07
March, 1966	513,656	21.74	17.52	2.14	2.07

*NOTE: Gross Margin comparisons between one retail food company and another are obscured because of varying accounting practices.

EXHIBIT B

WHOLESALE FOOD INDEX AND CONSUMER FOOD INDEX

Year	Overall Consumer Food Index	% Increase	Wholesale Food Index Vegetable Products	% Increase	Wholesale Index Animal Products	% Increase
1960	122.2		203.0		247.6	
1961	124.0	+1.5	203.1	+0.5	254.7	+2.9
1962	126.2	+1.8	211.6	+4.2	262.5	+3.0
1963	130.3	+3.2	227.8	+7.7	255.6	−2.6
1964	132.4	+1.6	223.3	−2.0	250.8	−1.9
1965	135.9	+2.6	218.4	−2.2	270.7	+7.9
1966	143.5	+6.4*	225.4	+2.5*	295.2	+12.9*

* Increase in seven months 1966 based on average vs. 1965.

SOURCE: Dominion Bureau of Statistics.

EXHIBIT C–1

BEEF AND PORK COSTS BY WEEKS JUNE-SEPTEMBER 1966/65

Date	Beef Sides Cost Per Pound		Hinds Beef Cost Per Pound		Pork Loin Cost Per Pound	
	1966	1965	1966	1965	1966	1965
June 13	45½	45½	53	58	64	57
June 20	45	45½	54	58	64	59
June 27	45½	47	54	58	64	61
July 4	44	47	54	58	63	61
July 11	44	46	54	57 Canada	63	60
July 18	45	46	55	57 Packers	62	60
July 25	46	46	57	57 Strike	63	58
Aug. 2	46½	46	59	57	63	60
Aug. 8	45½	46	58	57	65	58
Aug. 15	45½	46	58	57 Rail	65	58
Aug. 22	45½	46	58	57 Strike	64	58
Aug. 29	48	46	60	57	62	58
Sept. 5	49	45	59	54	64	58
Sept. 12	49	45	60	54	67	58
Sept. 19	48½	45	58	54	69	58
Sept. 26	49	45	58	54	69	58
Oct. 3	49	45	58	54	66	59
Average	46.5	45.8	56.9	56.4	64.5	58.8

EXHIBIT C-1 (Continued)

REGULAR SELLING PRICES ON MEAT CUTS
TORONTO 1966 VERSUS 1965

	W/Ending June				July					August				September			
1965	5	12	19	26	3	10	17	24	31	7	14	21	28	4	11	18	25
Porterhouse and T/Bone Steak	1.15	1.15	1.15	1.19	1.19	1.19	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Sirloin Steak	1.15	1.15	1.15	1.19	1.19	1.19	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Round Steak	1.05	1.05	1.05	1.10	1.10	1.05	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Round Steak Roast	1.05	1.05	1.05	1.10	1.10	1.05	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Rump Roast	.95	.95	.95	.95	.95	.95	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99
Round End Rump	.99	.99	.99	1.10	1.10	1.10	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09
Sirloin Tip	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
Cube Steak	1.35	1.35	1.35	1.35	1.35	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Flank Steak	.98	.98	.98	.98	.98	.98	.98	.98	.98	.98	.98	.98	.98	.89	.89	.89	.89
Short Rib Roast	.75	.75	.75	.75	.75	.75	.75	.75	.75	.75	.75	.75	.75	.75	.75	.75	.75
Cross Cut Rib	.75	.75	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79
Blade Roast	.75	.75	.75	.69	.69	.69	.69	.69	.69	.69	.69	.67	.67	.67	.69	.69	.69
Mince Chuck	.69	.69	.69	.69	.69	.69	.69	.69	.69	.69	.69	.69	.69	.69	.69	.69	.69
Prime Rib Roast	.92	.92	.92	.92	.92	.92	.92	.92	.92	.92	.92	.89	.89	.89	.89	.89	.89
Braising Ribs	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49
Stew Beef	.72	.72	.72	.72	.72	.72	.72	.72	.72	.72	.72	.72	.72	.72	.72	.72	.72
Rolled Brisket	.55	.55	.49	.55	.55	.55	.59	.59	.59	.59	.59	.55	.55	.51	.51	.55	.55
Hamburg	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49
1966																	
Porterhoues and T/Bone Steak	1.19	1.19	1.19	1.19	1.19	1.19	1.19	1.19	1.19	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29
Sirloin Steak	1.19	1.19	1.19	1.19	1.19	1.19	1.19	1.19	1.19	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.29
Round Steak	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.05	1.09	1.05	1.09	1.09	1.09	1.19	1.19
Round Steak Roast	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.05	1.09	1.05	1.09	1.09	1.09	1.19	1.19
Rump Roast	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99
Round End Rump	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09
Sirloin Tip	1.09	.99	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.15	1.09	1.09	1.09	1.09	1.09	1.09
Cube Steak	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39
Flank Steak	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99	.99
Short Rib Roast	.75	.75	.75	.79	.79	.75	.75	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79
Cross Cut Rib	.75	.75	.75	.79	.79	.75	.75	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79
Blade Roast	.75	.75	.75	.75	.75	.73	.73	.73	.73	.73	.73	.73	.73	.73	.73	.73	.69
Mince Chuck	.75	.75	.75	.75	.75	.75	.75	.75	.75	.75	.75	.75	.69	.75	.75	.75	.75
Prime Rib Roast	.95	.95	.95	.95	.95	.98	.98	.98	.98	.98	.99	.99	.99	.99	.99	.99	.99
Braising Ribs	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49
Stew Beef	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79	.79	.82
Rolled Brisket	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59
Hamburg	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59	.59

EXHIBIT C–2

Store Gross Margin % on Meats

Year	1st Half Year	2nd Half Year
	%	%
1961	20.34	19.57
1962	19.16	19.71
1963	19.85	20.09
1964	19.53	20.10
1965	19.84	19.35
1966	20.96	

EXHIBIT C–3

Side Bacon Costs and Selling Prices

	March 5 1966	July 18 1966	Sept. 29 1966
	$	$	$
Dressed Hogs	40.00 cwt.	36.00 cwt.	34.00 cwt.
Trimmed Loins	62.00	64.00	67.00
N.Y. Shoulder	52.00	47.00	47.00
Spare Ribs	66.00	65.00	67.00
Sliced Side Bacon No. 1	89.00	92.00	102.00

	Supplier A			Supplier B			Supplier C		
W/E Mar. 5	Cost	Selling	Margin %	Cost	Selling	Margin %	Cost	Selling	Margin %
Mar. 5	81	1.19	31.9	84	1.23	31.7	99	1.39	28.8
12	78	.95 adv.*	17.0	84	1.23	31.7	96	1.29	25.6
19	75	.89 adv.	14.0	84	1.23	31.7	93	1.29	27.9
26	71	.89 isf**	20.0	74	.89 adv.	19.0	93	1.29	27.9
Apr. 2	69	.99	33.3	74	1.09	32.1	74	.89	16.0
9	71	.99	28.3	67	.79 adv.	15.0	85	1.19	28.6
16	69	.99	30.3	67	.89 adv.	24.0	87	1.19	26.9
23	68	.83 adv.	18.0	67	.99	32.3	83	1.15	27.8
30	68	.83 adv.	18.0	67	.89	24.0	83	1.15	27.8
May 7	68	.83 adv.	18.0	88	1.19	26.1	83	1.19	30.3
14	68	.83 adv.	18.0	86	1.19	27.7	79	1.15	31.3
21	72	.99	27.3	88	1.19	26.1	79	.99	20.0
28	74	.99	25.3	89	1.25	28.8	79	.99	20.0
June 4	74	.99	25.3	79	.99 adv.	20.0	92	1.29	28.7
11	79	.95	16.0 adv.	93	1.29	27.9	90	1.29	30.2
18	79	.95	16.0 adv.	91	1.31	30.5	92	1.31	29.8
25	80	.95	15.0 adv.	91	1.31	30.5			
July 2	81	.95	14.0 adv.	91	1.31	30.5			
9	79	.95	16.0 adv.	91	1.31	30.5			
16	79	.95	16.0 adv.	91	1.31	30.5			
23	79	.95	16.0 adv.	92	1.31	29.8			
30	80	1.09	26.6	94	1.33	29.3			
Aug. 6	83	1.15	27.8	95	1.39	31.7			
13	85	1.19	28.6	98	1.35	27.4			
20	89	1.29	31.0	1.04	1.39	25.2			
27	91	1.29	29.5	1.03	1.39	25.9			
Sept. 3	90	1.29	30.0	1.03	1.39	25.9			
10	90	1.29	30.0	1.03	1.39	25.9			
17	89	.99	10.0	1.03	1.39	25.9			
24	89	1.29	31.0	89	.96 adv.	10.0			
Oct. 1	89	.99	10.0	98	1.39	29.5			
8	89	.99	10.0	98	1.39	29.5	95	1.33	28.6

* Advertised Special

** In-Store Feature

Note: 80% of total bacon volume is in the advertised brand when featured.

EXHIBIT C–4

Consumer Price Index
Oranges

Year	Price*1	Index	% Price Change
1960	52.2	100.0	
1961	58.2	111.5	+11.5
1962	63.0	120.7	+ 8.4
1963	66.6	127.6	+ 5.7
1964	59.7	114.4	−10.4
1965	59.2	113.4	− .8
1966	53.1	101.7	−11.3 *2

*1—One dozen California medium size oranges.

*2—Decrease from 1st 7 month average 1965.

Source: Dominion Bureau of Statistics.

EXHIBIT C–5

Consumer Price Index
Potatoes

Year	Price*1	Index	% Price Change
1960	58.0	100.0	
1961	47.8	82.4	−17.6
1962	47.3	81.6	− 1.0
1963	51.4	88.6	+ 8.7
1964	59.6	102.8	+16.0
1965	76.7	128.8	+28.7
1966	70.0	120.7	−21.7 *2

*1—Ten pound bag, fresh No. 1 table potatoes.

*2—Decrease from 1st 7 months average 1965.

Source: Dominion Bureau of Statistics.

EXHIBIT C–6

Comparative Wholesale and Retail Prices of Grade A Large Eggs from Two Sources of Supply (over past 22 months)

	From Wholesaler			From Dominion Grading Station		
	Wholesale Price	Retail Price	Mark Up %	Stn. Price	Retail Price	Mark Up %
1965—January	38½	.47	18.0	.41	.47	12.8
February	.34½	.43	19.7	.35	.41	14.6
March	.38½	.47	18.0	.39	.45	13.3
April	.40½	.47	13.8	.41	.47	12.8
May	.41½	.49	15.3	.42	.49	14.3
June	.39½	.47	15.9	.41	.47	12.8
July	.40½	.47	13.8	.41	.47	12.8
August	.44½	.51	12.7	.44	.51	13.7
September	.51½	.57	9.6	.51	.57	10.5
October	.61½	.69	10.7	.58	.65	10.8
November	.64½	.71	9.1	.65	.73	11.0
December	.62½	.69	9.4	.65	.71	8.5
1966—January	.57½	.63	8.7	.56	.63	11.1
February	.48½	.56	13.4	.48	.55	12.7
March	.49½	.57	13.2	.51	.59	13.6
April	.57½	.64	10.2	.57	.63	9.5
May	.52½	.59	11.0	.57	.65	12.3
June	.49½	.57	13.2	.51	.59	13.6
July	.53½	.59	9.3	.52	.59	11.9
August	.62½	.69	9.4	.66	.73	9.6
September	.65½	.73	10.3	.66	.73	9.6
October	.65½	.74	11.5	.66	.73	9.6

EXHIBIT C-7

ONTARIO COST OF CHICKENS AND CUTS WITH SELLING PRICES

Date	Broilers		Legs		Breasts	
	Cost	Selling	Cost	Selling	Cost	Selling
1965						
March 29	32	49	46	69	46	69
April 5	32	49	46	69	46	46
12	32	49	46	69	46	46
19	32	49	46	69	46	46
26	31	47	43	69	43	69
May 3	30	45	44	67	44	67
10	29	29 adv.	42	67	42	67
Marketing Board 1965						
17	31	47	45	59 adv.	45	59 adv.
24	32	49	46	69	46	69
31	33	49	47	69	47	69
June 7	33	49	47	69	47	69
14	33	49	47	69	47	69
21	33	49	48	69	48	69
28	32½	35 adv.	47½	59 adv.	47½	59 adv.
July 5	34	49	49	69	49	69
12	34	49	49	75	49	75
19	34	49	49	75	49	75
26	34	49	49	72	49	72
Aug. 2	34	49	50	72	50	72
9	34	49	50	75	50	75
16	35	49	50	72	50	72
23	35	49	50	72	50	72
30	35	49	50	72	50	72
Sept. 6	35	49	50	72	50	72
13	35	49	50	72	50	72
20	35	49	48	72	48	72
27	35	49	48	72	48	72
Oct. 4	35	49	50	72	50	72
12	35	49	50	72	50	72
19	34	49	50	72	50	72
26	35	47	50	72	50	72
Nov. 1	35	47	50	72	50	72
15	35	47	50	72	50	72
Dec. 6	35	47	50	72	50	72
13	35	47	50	72	50	72
20	35	47	50	72	50	72
27	35	47	50	72	50	72
1966						
Jan. 3	35	49	50	72	50	72
10	36	49	51	73	51	73
17	38	53	53	79	53	79
24	38	53	53	79	53	79
31	38	53	53	79	53	79
Feb. 6	38	53	53	79	53	79
13	38	53	53	79	53	79
21	37½	53	52½	79	52½	79
28	38	53	53	79	53	79
March 7	38	53	53	79	53	79
14	38	53	53	79	53	79
21	38	53	53	79	53	79
28	38	53	53	79	53	79

EXHIBIT C-7—Cont'd

ONTARIO COST OF CHICKENS AND CUTS WITH SELLING PRICES—*Continued*

Date		Broilers		Legs		Breasts	
		Cost	Selling	Cost	Selling	Cost	Selling
1966							
Apr.	4	38	53	53	79	53	79
	11	38	53	53	79	53	79
	18	38	53	53	79	53	79
	25	37	53	52	79	52	79
May	2	37	53	52	79	52	79
	9	37	37 adv.	52	79	52	79
	16	37	53	52	79	52	79
	23	37	53	52	79	52	79
	30	37	53	52	79	52	79
June	6	37	53	52	79	52	79
	13	37	53	52	79	52	79
	20	37	53	52	79	52	79
	27	37	53	51	79	51	79
July	4	36	53	51	79	51	79
	11	36	53	51	79	51	79
	25	36	53	51	79	51	79
Aug.	8	36	53	51	59 adv.	51	59 adv.
	15	36	53	51	79	51	79
	22	37	53	52	79	52	79
	29	37	53	52	79	52	79
Sept.	6	37	53	52	79	52	79
	12	37	53	52	79	52	79
	19	37	53	52	79	52	79
	26	36	37 adv.	52	79	52	79

* NOTE: Adv.—means advertised special.

EXHIBIT C–8

TREND IN RECENT GROSS MARK-UP ON TYPICAL PRODUCTS BEFORE SHRINKAGE AND SPECIALS

	Size	Mar./66 Gross Mark-Up	Aug./66 Gross Mark-Up
		%	%
Kellogg Corn Flakes	12 oz.	17.59	17.59
Nabisco Shredded Wheat	12 oz.	17.39	19.64
Quaker Oats Quick	5 lb.	18.18	16.74
Maxwell House Inst. Coffee	6 oz.	15.13	15.13
Culverhouse Choice Peach Halves	20 oz.	19.17	19.17
Sugaripe Medium Prunes	16 oz.	24.36	24.36
Kraft Pure Raspberry Jam	24 oz.	18.24	18.24
Brights Fancy Tomato Juice	48 oz.	18.90	18.90
Catelli Macaroni	1 lb.	17.83	19.63
Carnation Evaporated Milk	16 oz.	14.75	14.75
Mazola Oil	32 oz.	16.75	16.75
Kraft Peanut Butter	12 oz.	21.12	21.12
Regal Short Grain Rice	16 oz.	23.75	23.75
Miracle Whip Salad Dressing	16 oz.	17.22	17.22
Campbell's Vegetable Soup	10 oz.	17.61	17.61
Granulated Sugar	5 lb.	12.98	14.55
Javex	64 oz.	13.27	13.27
Tide Detergent	Giant	12.80	14.52
Crown Brand Syrup	2 lb.	17.31	18.70
Salada Tea Bags	60's	13.55	13.55
Libby's Deep Brown Beans	15 oz.	19.39	19.39
Stokely Fancy Corn	15 oz.	17.06	17.06
Aylmer Choice Peas	15 oz.	19.87	18.90
Five Rose Flour	7 lb.	17.90	16.47
General Bakery White Sliced Bread	24 oz.	20.83	20.83

	Dates	Gross Mark-Up
		%
Sunkist Oranges 138's	Aug. 1	29
	Aug. 11	24
	Aug. 30	29
	Sept. 6	29
	Sept. 9	29
	Sept. 21	33
	Sept. 26	29
	Sept. 27	29
McIntosh Apples	Aug. 1	30
	Aug. 15	35
	Sept. 2	29
	Sept. 19	36
	Sept. 26	39

EXHIBIT D

Improvement in Processing and Packaging—Spinach

In former years spinach was retailed in bulk. In that era the spinach had to be washed in the stores before being presented for sale, with the result that water was left in the crevices of each leaf and proper drainage was not possible.

The retail store sale necessitated packing 2 lbs. of spinach into a large 16 or 20 lb. bag. The result of such packing left the store staff with damp clothing and the customer with a packaged product in a paper bag, which in many cases disintegrated with water running onto the customer's clothing or into other groceries.

Although spinach was washed in the store, it had to be rewashed over again and roots trimmed in the home kitchen. After it was cooked, in many cases it was still sandy and gritty making it very unpalatable.

The product at the store level and in the customer's home was not a particularly desirable one with the resultant low volume through lack of customer acceptance.

Later processors began to pre-package washed and trimmed spinach in 10 ounce cello bags. This form of pre-packaging was on an experimental basis, but the rapid demand created by the consumer progressively diminished sales of spinach in bulk form and increased materially the total tonnage consumed of the product in its pre-packaged form. While processors and retail distributors were somewhat pessimistic about the acceptance of pre-packaged spinach over the bulk product, the customer, being the final judge, indicated her preference.

The gain in momentum for pre-packaged spinach can best be shown, we believe, in the statement of one major processor, who recorded 20,000 pounds packed in one week as compared with 75,000 pounds packed in the same week after the change in packaging.

The product today advertised as "Ready for the Pot", besides being pre-packaged, is mechanically washed several times, spin dried, carefully graded with all poor stems culled, before the packaging process takes place.

EXHIBIT E-1

Trend in Overall Employee Salaries and Welfare Benefits

Year Ended	Sales $(000)	Total Employee Salaries and Welfare Benefits $(000)	Total Employee Salaries and Welfare Benefits As a % of Sales
	$	$	%
March, 1962	408,173	38,304	9.38
March, 1963	427,017	40,957	9.59
March, 1964	459,346	44,647	9.72
March, 1965	487,735	49,980	10.25
March, 1966	513,656	53,780	10.47

EXHIBIT E–2

AVERAGE WEEKLY BASIC SALARY ALL FULL-TIME EMPLOYEES (EXCLUDING MANAGEMENT)

Date	Amount	Index Ratio
	$	
June 17, 1961	70.65	100.0
June 16, 1962	74.35	105.0
June 22, 1963	77.21	109.0
June 20, 1964	78.61	111.0
June 19, 1965	84.73	119.8
June 18, 1966	90.82	128.6

1. Increase 1961–1966—28.6%.
2. Increase 1965–1966— 7.2%.

EXHIBIT E–3

TREND IN TYPICAL COST OF EMPLOYEE WELFARE BENEFITS

Year	(1) Average Weekly Cost Vacations with Pay per Employee	(2) Average Weekly Cost Pension Plan per Employee	(3) Other Welfare Benefits Avg. Weekly Cost per Employee	Total (1)+(2)+(3)	Total (1)+(2)+(3) Index Ratio
	$	$	$	$	$
1961	2.87	2.69	3.89	9.45	100.0
1962	3.05	2.63	3.68	9.36	98.9
1963	3.42	2.60	4.12	10.14	107.1
1964	3.55	2.80	4.55	10.90	115.1
1965	3.85	3.35	4.70	11.90	125.9
1966	4.20	3.55	5.33	13.08	138.4

1. Increase 1961–1966—38.4%
2. Increase 1965–1966— 9.9%
3. Total cost of welfare and fringe benefits per full-time employee equals approximately $20.00 per week.

EXHIBIT F

Year Ended	Corporation Income Taxes $ (000)	Corporation Income Taxes Index	Business Taxes $ (000)	Business Taxes Index	Property Taxes $ (000)	Property Taxes Index
March, 1962	7,775	100.0	1,480	100.0	1,587	100.0
March, 1963	8,601	110.6	1,469	99.3	1,720	108.4
March, 1964	10,125	130.2	1,546	104.5	1,818	114.5
March, 1965	10,880	139.9	1,734	117.2	1,927	121.4
March, 1966	11,010	141.6	1,772	119.7	2,201	138.7

FEDERAL SALES TAX

June 14, 1963—This tax was extended to include building materials and production machinery. We have calculated that this tax increases the construction cost of an "average" store by $15—20,000 or 6%.

ONTARIO RETAIL SALES TAX

On September 1, 1961 this tax was instituted at 3%.

On April 1, 1966 this tax was increased to 5%.

Tax has added $10,000—$15,000 to the cost of equipping an "average" store.

QUEBEC RETAIL SALES TAX

During April 1964 the Quebec retail sales tax was increased from 5% to 6%.

EXHIBIT G

Comparison of Equipment Costs between Two Similar Sized (15,600 sq. ft.) Toronto Stores 1966 vs 1961

		Store opened Feb./66		Store opened Aug./61
		$		$
9 Checkout Desks C/W Belt and Registers		27,191.34		20,175.05
Bottle Return Counter C/W Register		845.02		529.46
Snack Bar C/W Register, Dispensers, Grills, etc.	(18′)	4,020.38	(20′)	3,415.72
Dry Produce Cases	(68′)	5,356.82	(50′)	4,377.94
Refrigerated Produce Cases	(24′)	2,427.24	(16′)	1,857.73
Dairy Cases	(48′)	4,914.44	(40′)	3,689.21
Service Meat and Fish Cases	(30′)	4,416.90	(15′)	2,535.47
Self Serve Meat Cases	(56′)	6,719.73	(60′)	6,483.92
Frozen Food Cases	(64′)	8,058.61	(88′)	7,666.45
Ice Cream Cases	(16′)	5,189.86	(24′)	2,246.99
Frozen Poultry Cases	(20′)	2,489.48	(20′)	1,646.70
Grocery Islands C/W Ends	(244′)	8,346.98	(229′)	6,434.44
Sundries Islands C/W Ends	(78′)	6,738.12	(86′)	3,759.29
Display Tables, Bins, etc.		1,969.19		1,520.25
Meat Dept. Equipment: Saws, Chopper, Scales, etc.		13,550.27		7,732.47
Grocery Dept. Equipment: Scales, Coffee Mill, Etc.		1,338.66		1,066.68
Produce Dept. Equipment: Scales, Labeller, Wrappers, etc.		2,734.52		1,212.31
Conveyor Systems		3,264.39		1,714.25
Meat Cooler—Including Coils		3,690.13		3,504.95
Dairy Cooler—Including Coils		1,304.43		1,430.50
Freezer—Including Coils		3,301.37		2,673.78
Produce Cooler—Including Coils		1,960.54		2,232.31
Meat Holding Room—Including Coils		1,610.21		1,517.24
Fish Cooler		2,234.54		—
Refrigeration for Cases & Coolers (Excluding Coils for Coolers)		31,268.42		24,176.00
Electrical		8,391.86		4,627.97
Plumbing		2,685.00		1,975.00
Neon Sign		1,533.86		3,019.16
Store Lighting		14,230.08		9,477.04
250 Buggies and 9 Carryout Carts		9,411.18		8,578.64
Miscellaneous: Skids, Trucks, Cupboards, Benches, Time Recorder Safe, Adding Machines, Racking, etc.		10,851.51		9,828.74
Carpenters & Foreman's time plus material for work in back rooms, receiving areas, etc.		5,147.72		2,930.07
Total Equipment Cost Increase Over 5 Years—34.4%		207,192.80		154,035.73

EXHIBIT H-1

Advertising and Promotions Expense Ratios

Fiscal Years 1962–1966 and 1st Half 1967

(000 Omitted)

For the fiscal years ended March	1962	1963	1964	1965	1966	1st Half 1967
Sales	$408,173	$427,017	$459,346	$487,735	$513,657	$266,306
Advertising Cost, including newspapers, handbills, radio, television, billboards, etc.	$ 3,339	$ 2,670	$ 3,085	$ 3,477	$ 3,856	$ 1,929
Advertising Expense Ratio	.82%	.63%	.67%	.71%	.75%	.74%
Promotions Cost, including Contests, new store openings, etc.	$ 847	$ 1,944	$ 1,971	$ 1,567	$ 1,956	$ 830
Promotions Expense Ratio	.20%	.45%	.43%	.32%	.38%	.30%
Combined Advertising and Promotions Cost	$ 4,186	$ 4,614	$ 5,056	$ 5,043	$ 5,812	$ 2,735
Combined Expense Ratio	1.02%	1.10%	1.10%	1.03%	1.13%	1.06%

EXHIBIT H–2

Public Relations Expense Ratios

Fiscal Years 1962–1966 and 1st Half 1967

(000 Omitted)

For the fiscal years ended March	1962	1963	1964	1965	1966	1st Half 1967
Sales	$408,173	$427,017	$459,346	$487,735	$513,657	$266,306
Public Relations Expense	$ 148	$ 125	$ 187	$ 170	$ 262	$ 153
Expense Ratio	.03%	.03%	.04%	.03%	.05%	.06%
Average for past five fiscal years			.04%			

Note: Expenses in 1966 fiscal year, and 1st Half of current fiscal year, are up slightly because of extraordinary expenses for Centennial Project and Expo '67 exhibit, costs of which are being spread over fiscal years ending March 1966, 1967 and 1968.

EXHIBIT I

Trading Stamps Expense Ratios

Fiscal Years 1962–66 and 1st Half 1967

(000 Omitted)

For the fiscal years ended March	1962	1963	1964	1965	1966	1st Half 1967
Sales	$408,173	$427,017	$459,346	$487,735	$513,657	$266,306
Domino Stamp Plan Expense	$ 1,659	$ 1,553	$ 1,580	$ 1,662	$ 1,629	$ 835
Expense Ratio	.40%	.36%	.34%	.34%	.32%	.31%
Average for past five fiscal years			.35%			

Note: Costs of Ottawa Tape Plan included in 1962 and part of 1963, when it was discontinued.

Costs in 1st Half of current fiscal year are down .01% from last full fiscal year, and .04% from average of last five fiscal years.

EXHIBIT J

Some Recent Efficiency Measures Introduced in Stores

1. Continuing improvement of store layouts.
2. Automatic meat labelling and weighing procedures.
3. Mechanical checkouts.
4. 2-3-4-5 deck fixtures.
5. Greater use of skids with fork lifts.
6. Reversible power conveyors for receiving and moving merchandise.
7. Meat rails from trucks to coolers.
8. Semi-automatic and fully automatic meat wrapping machines.
9. Automatic change computation cash registers.
10. Night receiving at stores where possible.

Some Recent Efficiency Measures Introduced in Warehouses and Distribution System

1. Advanced merchandise materials handling equipment.
2. Electric fork lift trucks.
3. Computer ordering, billing and invoicing.
4. Modern large tractor-trailers.
5. Modern frozen food distribution warehouse and trucking.
6. Palletization wherever possible in warehouse.

EXHIBIT K

Comparison of Private Brand Price vs. National Brand Price

Item	Size	Selling Price	% Saving to Customer
		$	$
Liquid Detergent			
Domino (Private Brand)	12 oz.	.28	45.1
National Brand	12 oz.	.51	
Domino	24 oz.	.49	50.5
National Brand	24 oz.	.99	
Domino	32 oz.	.59	53.5
National Brand	32 oz.	1.27	
Powdered Detergent			
Domino	16 oz.	.31	25.0
National Brand	20 oz.	.52	
Domino	32 Oz.	.59	24.7
National Brand	42 oz.	1.03	
Domino	4 lbs.	1.09	25.2
National Brand	5 lbs.	1.85	
Instant Coffee			
Richmello (Private Brand)	2 oz.	.39	31.6
National Brand	2 oz.	.57	
Richmello	6 oz.	.89	33.1
National Brand	6 oz.	1.33	
Richmello	10 oz.	1.43	24.3
National Brand	10 oz.	1.89	
Roasted Coffee			
Richmello	8 oz.	.44	
National Brand A	8 oz.	.54	18.5
National Brand B	8 oz.	.54	18.5
Richmello	16 oz.	.87	
National Brand A	16 oz.	.99	12.1
National Brand B	16 oz.	.99	12.1
Salad Dressing			
Richmello	16 oz.	.35	
National Brand A	16 oz.	.45	22.2
National Brand B	16 oz.	.45	22.2
Biscuits			
Hilltop (Private Brand)	1 lb.	.39	
National Brand A	1 lb.	.49	20.4
National Brand B	1 lb.	.49	20.4
Tea Bags			
Richmello	60's	.69	
National Brand A	60's	.87	20.7
National Brand B	60's	.87	20.7
National Brand C	60's	.87	20.7
Bulk Tea			
Hilltop (Private Brand)	8 oz.	.45	34.8
National Brand	8 oz.	.69	
Hilltop	16 oz.	.87	36.5
National Brand	16 oz.	1.37	

EXHIBIT K

Item	Size	Selling Price	% Saving to Customer
		$	%
Soft Drinks			
Domino Ginger Ale	30 oz.	2/.29	40.8
National Brand	30 oz.	2/.49	
Peanut Butter			
Richmello	16 oz.	.37	
National Brand A	12 oz.	.43	35.5
National Brand B	16 oz.	.53	30.2
National Brand C	16 oz.	.53	30.2
Cheese			
Richmello Medium	16 oz.	.73	
National Brand A	12 oz.	.73	25.0
National Brand B	16 oz.	.87	16.1
Chocolates			
Dominion Poly (Bars)	5's	.39	
National Brand	10's	.97	19.6
Facial Tissues			
Symphony (Private Brand)	400's	3/.95	
National Brand A	400's	2/.71	10.8
National Brand B	400's	2/.71	10.8

NOTE:

1. Where size of package varies item comparison has been made on a per ounce basis.
1. There are a great number of other private brands but only a few representative ones have been listed here.

EXHIBIT L-1

TREND IN NET PROFIT AFTER TAX

Year Ended	Net Profit After Tax on Dollar of Sales
March, 1962	1.84¢
March, 1963	1.90¢
March, 1964	2.03¢
March, 1965	2.07¢
March, 1966	2.07¢

EXHIBIT L–2

Disposition of Sales Dollar

Based on the year ended March 19, 1966 ten dollars received at our checkout counter from a customer would be disposed of as below:

Received from customer	$ 10.00
Paid To Suppliers	
—Purchases from farmers, producers, packers, manufacturers and other suppliers	7.83
Paid To Employees	
—Salaries and other employee benefits	1.05
Operation Costs	
—Rents, local taxes, licences, insurance, light, heat, water, telephone, laundry, maintenance, depreciation on buildings and equipment, advertising, debenture interest and other expenses	.71
Taxes on Income	
—Taxes on income payable to Federal and Provincial Governments amounted to	.21
Dividend to Shareholders	.11
Reinvested in the Business	
—The balance available from the year's operations to provide for continued development and for working capital	.09
Total	$ 10.00

EXHIBIT M

Rate of Return on Investment

On the controversial question of return on investment our Company's rate of earnings (after tax) on investment in the business is calculated below. Investment in the business is defined as shareholders' equity plus funded debt plus future income taxes plus leasehold liability.*

Fiscal Years Ended March

	1962	1963	1964	1965	1966
% Return on Investment	6.09%	5.99%	6.19%	6.24%	6.01%

* Note: At March 19, 1966 our Company's total liability under long-term leases amounted to $94,000,000 which was 40% greater than our shareholders' equity in the company.

EXHIBIT N-1

ALL CANADA—CONSUMER PRICE INDEXES 1963–1966
(Source: D.B.S.)

YEAR	FOOD
1960	122.2
1961	124.0
1962	126.2
1963—January	129.0
February	129.4
March	128.9
April	128.9
May	128.3
June	129.7
July	132.5
August	133.2
September	131.3
October	130.4
November	130.8
December	131.4
1964—January	131.4
February	131.3
March	131.3
April	131.8
May	131.2
June	132.5
July	135.4
August	135.1
September	132.7
October	131.0
November	132.0
December	133.2
1965—January	132.5
February	133.1
March	133.3
April	133.4
May	134.5
June	137.6
July	139.0
August	137.8
September	136.4
October	135.7
November	138.2
December	139.6
1966—January	140.6
February	142.5
March	143.4
April	143.7
May	143.8
June	144.2
July	146.0
August	148.1
September	147.1
Average % Increase 1966 vs. 1965	6.7%

EXHIBIT N-2

THE GLOBE AND MAIL

THURSDAY, October 6, 1966.

NOT JUST A MATTER OF FOOD

That could turn out to be a windmill the embattled housewives are proposing to attack with their boycott against the supermarkets. Or it could be themselves.

Food prices have certainly increased 35.9 per cent between 1949 and 1965. That is a matter of record. It is equally true that prices to farmers in the same period have increased only 6.6 per cent. But these figures do not automatically make villains of the supermarkets, or of the wholesalers, or producers or distributors who handle food between the field and the store.

In this century and particularly since the Second World War there has been a revolution in the food business on the North American continent, and the housewives, armored with shopping buggies, have been right there among the rebels. The small, single stores that sold food in pretty much the condition it was received from the farmer have largely given way to supermarkets, whose food often looks as though it never saw a farmer. These big stores have brought endless varieties of foods together in a single location and standardized quality so that a purchaser can be fairly certain about what she is receiving. They would not have been a success if they had not been giving housewives what housewives want.

Not nearly all of it, of course, is food. The supermarkets have provided handy parking lots, piped-in music and those afore-mentioned buggies ("If we provided trailer trucks I think the women would fill them," said one supermarket manager). They have competed with each other by way of trading stamps, and contests—the price of carrots helps pay for a new toaster and provides a chance on a trip to the sunny south.

Packaging and processing have also played a large part in rising food prices. Where the housewife preparing Thanksgiving dinner had once to pluck, clean and stuff the turkey, peel dirty potatoes and turnips and mash the lumps out of them (seldom a wholly successful endeavor) and start with the pumpkin to make the pumpkin pie, she can now buy the whole menu frozen and ready to pop into the oven. She is not only buying the food, but the services of a host of people to prepare it; and it is entirely possible that as many manhours went into the preparations as the farmer down the line put into the original production.

If all a housewife wants is food, she can get it at St. Lawrence Market, without the trimmings. But in that case why are she and her sisters supporting hundreds of supermarkets, and only one St. Lawrence Market?

There can be no doubt that the present high cost of food creates a serious problem for the housewife who must feed her family on a low income. It is not, however, a problem that is likely to be solved by a boycott of the supermarkets. The supermarkets themselves do not take a large profit on the things they sell—the profit of Dominion Stores Ltd. in 1965 was 2.07 cents on its sales dollar; no independent store could restrict itself to such a small return and hope to survive, and independent stores don't.

Dr. Barbara McLaren, head of the Food Sciences Department of the University of Toronto, proposes a more logical method of cutting the food budget: discover which foods offer the best nutritional bargains and shape the family menu around them "I would be pleasantly surprised and delighted," she said, "if the housewives decide to carry out their plans by swinging toward

protein-rich stewing beef or heart—and they shouldn't overlook fish—all excellent sources of protein and less expensive."

That there is room for such a campaign is demonstrated by Canadian consumption figures. Between 1950 and 1965 Canada's per capita beef consumption rose from 50.6 pounds to 78.7 pounds, but per capita consumption of such products as animal hearts, livers, kidneys and tongue dropped to 3.4 pounds from 4.9 pounds. Yet these are highly nutritious meat products.

A campaign to increase the use of such products would require study and the changing of some food habits, and would not be nearly so exciting as marching on supermarkets; but it could be more effective in helping housewives to get the right food at the right prices.

If they persist in their boycott, however, they will not want for sympathy and support from certain politicians, who are always delighted to lead any assembled group of protestors—from the rear, of course, and not necessarily in the direction of success.

EXHIBIT O

DEPARTMENT OF AGRICULTURE

WASHINGTON, D.C. 20250

September 1, 1966.

Mr. Michael J. O'Connor, Executive Director
Super Market Institute, Incorporated
200 East Ontario Street
Chicago, Illinois 60611

Dear Michael:

It has been reported to me—and I have noted it several times in the press—that the Secretary of Agriculture in his presentation before the New York City Council commented disparagingly about our food processing and marketing system.

This is not the case. Quite to the contrary, I pointed out then as I have done many times before all kinds of groups and under every imaginable circumstance—that the American food industry is unexcelled in its effectiveness and efficiency. The fact that the American consumer is spending only 18.2 percent of his take-home pay for food, and eats better and cheaper in relation to his real income than do consumers in any other country in the world, testifies to the efficiency of our food marketing system.

Since Secretaries of Agriculture seem frequently to be quoted out of context, I wanted you to know what I have said and to reiterate to you my own position. I enclose a verbatim record of what was actually said at the New York hearing. (Please excuse the clumsy wording.)

This is not, of course, to say that improvements cannot be made or that in some instances abuses don't exist in our marketing process, I am sure you would be the first to agree that as good as our marketing system is, it is no more perfect than any other segment of our economy.

I take this occasion, then, not only to set the record straight but also to ask again for your understanding and your cooperation in doing an ever better job to serve the people of this country.

Sincerely yours,

Orville L. Freeman,
Secretary of Agriculture.

Enclosure

—Upon resuming at 3 p.m.

Co-Chairman Senator CROLL: Order.

M. LEBLANC (*Laurier*): Monsieur le président, devant l'assistance que nous avons ici, et également à cause du fait que les journalistes français se plaignent qu'ils ont de la difficulté à suivre les débats, je me demande s'il n'y aurait pas possibilité que le Comité siège dans une salle où les facilités seraient plus adéquates pour rencontrer la population et les gens qui viennent ici nous rencontrer, et pour les installer peut-être plus confortablement, car ici nous sommes assez tassés et les journalistes français ne peuvent pas recevoir l'interprétation simultanée parce qu'ils n'ont pas l'équipement.

Je me demande s'il n'y aurait pas la possibilité pour que votre Comité de travail s'organise pour avoir ce comité dans une autre chambre.

Co-Chairman Senator CROLL: Well, as you know, we are not very happy about these facilities. In the West Block we were in room 308 and were moved across the hall to a room which was about the size of a large telephone booth. This is the only thing that is available at the present time, so busy are they with committees. We will keep trying to make sure we can improve our facilities, but I think the French correspondents can sit around the table here, and that will facilitate them for the time being, until we are able to get a better room.

This afternoon we have Steinberg's Limited, and as witnesses: Mr. Sam Steinberg, the Chairman and President, who is sitting there; Mr. Nathan Steinberg, the senior Vice-President, who is behind; Mr. James M. Doyle, Vice-President, Secretary and General Counsel, Mr. Arnold Steinberg, Vice-President and Treasurer, on my left; and Mr. Jack Levine, Vice-President and General Manager (Quebec Division), is on the far left.

Mr. Sam Steinberg will read the brief.

Mr. Sam Steinberg, President, Steinberg's Limited: Mr. Chairman and gentlemen, it is indeed an honour for me to have been invited here this afternoon to testify before this combined Senate and House of Commons Committee on Consumer Prices.

Steinberg's has always considered it a duty, when so called upon, to provide whatever information has been requested for use in the public interest. Therefore, we welcome this opportunity of presenting our views on what is happening in the food distribution industry specifically as it relates to Steinberg's Limited.

Steinberg's Limited is a diversified company whose activities embrace food and general merchandise retailing. Its operations are centered in the provinces of Quebec and Ontario. We also have one store in New Brunswick. At the end of our fiscal year 1966, which ended roughly two months ago, we operated 157 food stores and 11 department stores. Our combined sales for this fiscal period totalled $400,882,000 and our profit was $7,639,000. We earned 1.9 cents on every dollar of sales achieved.

In addition to managing retail supermarkets and department stores our company, through a wholly-owned subsidiary, operates manufacturing facilities for the production or processing of food products sold under the company name in our retail outlets. For example, we produce a wide variety of baked goods, meat and delicatessen items; we process tea and coffee; we roast and pack nuts; and the like. We recently completed a new bakery, one of the largest and most efficient in Canada, at a cost of approximately $8-1/2 million. It incorporates the ultimate in quality manufacturing, sanitation and efficiency of operation. Products are made up, baked, cooled and packaged automatically in simultaneous operations.

In this same area of food processing, the company will shortly expand substantially its delicatessen facilities, particularly in keeping with the increas-

ing demand for prepared and semi-prepared foods such as frozen meat pies, pizza pies, cooked meats, prepared salad items and similar items.

We have entered the field of food processing to enable our stores to offer high quality goods to the consumer at prices lower than would otherwise be available.

In addition to our own manufactured products, we carry a wide range of items under private label which permits us to offer the customer exceptional value in terms of prices and quality. You will find in the material submitted today prices of a representative group of Steinberg private label items compared to those of similar products of national and regional brand manufacturers.

We make available to consumers, on the average, a total of 6,000 items combining private label, national, regional and local products. In some of our larger stores we carry as many as 8,000 items.

While on the subject of suppliers, I would like to say that Steinberg's Limited exerts no control over its suppliers.

Our company has, since its inception, felt an obligation to the public and to our suppliers to further the efficient distribution of goods. Typical of this was the opening this summer of a new produce distribution centre which enables us to offer goods at the peak of their quality. The entire building, including truck and rail loading and unloading facilities, is at a year-round temperature of 50 degrees and a humidity of 90 per cent to ensure that the merchandise maintains its full bloom. All our vans transporting produce maintain the same temperature. We pioneered in Canada the use of nitrogen gas as a refrigerant in trucks used to transport perishable merchandise from distribution centre to store. The advantage of this technique is the speed by which temperatures in the van can be reduced to the desirable levels during delivery.

We operate our own meat warehouses to ensure the ultimate in quality control of meat products. This allows us to inspect all meats coming into the plant prior to delivery to the stores. More importantly, it allows us to age our beef in a scientific fashion and under our complete control in order to offer merchandise of the highest quality to our customers. All of our meat warehouses and meat processing operations are under federal Government inspection.

We have completed a feasibility study and will shortly commence construction on the first centralized meat cutting plant in Canada in order to substantially increase efficiencies in the breaking down of beef. This will not only allow for a better utilization of manpower but will ensure uniformity of meat cutting not presently available under the present method of having cutting operations carried out in each individual store.

Steinberg's operates its own large transportation fleet. These trucks operate around the clock to supply our stores. The trucks will shortly be scheduled by means of a computer in order to improve on our truck utilization rate.

We operate a wholly-owned premium stamp company which enable us to provide promotional gift centres for our customers. These have proven extremely popular with the consumer.

We have a substantial interest in Cartier Refined Sugars Ltd., one of the smaller sugar refineries in the Montreal area.

We have on order a new I.B.M. 360 computer, considered to be the most advanced computer available to business. It will be applied to allow us to make better decisions, to operate more efficiently, and to provide us with better and quicker analyses of our operations.

In the same vein, we maintain a Research Department employing trained statisticians and economists to assist us in choosing store and shopping centre locations, and to help us in our marketing activities. We are continuously

conducting surveys to determine what our consumers want so that we can reflect their preferences in our new stores and in our marketing policies.

Our most concentrated efforts, though, are involved in developing the people who work in our company. We currently employ a total of 16,000 persons, divided roughly into 50 per cent full time and 50 per cent part time.

The company has undertaken a major program of management development starting with the president and running down through the entire senior and middle management ranks, supervisory personnel, store managers and store department managers. Literally hundreds of key company managers have been involved in this program of personnel development using the latest techniques available in Canada and the United States. Similarly, a great deal of work is being done in the techniques of employment, indoctrination and on-the-job training of new personnel coming into the company.

The key to a successful company in the supermarket industry is volume. Our stores enjoy the highest average volume per unit in Canada. Volume is achieved by having stores which are conveniently located, personnel properly serving the customer, advertising and sales promotional programs which attract and interest the consumer, modern stores incorporating the latest in convenient shopping, a variety of goods which allows the consumer a choice of brands and prices and, of course, prices which are competitive.

Our new and modern facilities, our manufacturing operations, our distribution fleet, our department stores, our private label products, our new and modern warehouses, our use of the latest in computers and research personnel, our real estate operations, our training and indoctrination of personnel,—this in total enables us to earn a profit of less than two cents on each dollar of sales.

We have not prepared a formal brief, but I have brought with me a considerable amount of material in keeping with the guidelines sent to us by this joint committee.

(*See Exhibits A(1) to A(15) inclusive immediately following this text.*)

I shall be pleased to answer your questions.

If any information is not now available, I shall be pleased to send it to you in the shortest possible time.

Co-Chairman Senator CROLL: I think you had better explain the tables.

Mr. S. STEINBERG: The first table shows our sales and profits. In 1956/57 our sales were $132,431,000—

Mr. LEBLANC: Mr. Chairman, I have not a copy of that table.

Co-Chairman Senator CROLL: Yes, it is in the back of the submission.

Mr. S. STEINBERG: We brought 40 copies with us.

The CLERK OF THE COMMITTEE: Additional copies are now being run off.

Co-Chairman Senator CROLL: Yes, but sufficient copies should be kept for the members of the committee, and there are members without a copy. Perhaps we can do some sharing in the meantime.

Proceed, Mr. Steinberg, and please explain, as you go along, what you are talking about.

Mr. S. STEINBERG: Gentlemen, you have before you a ten-year projection commencing with the year 1956/57. The reason for the split year is that our year ends in July. Our sales in 1956/57 were $132,431,000; in 1957/58 they were $150,926,000; in 1958/59 they were $178,261,000; in 1959/60 they were $238,-117,000; in 1960/61 they were $253,222,000; in 1961/62 they were $267,965,000; in 1962/63 they were $286,810,000; in 1963/64 they were $327,227,000; in 1964/65 they were $379,097,000; and our latest sales for the year 1965/66 are $400,882,000. Our statement will probably be out in a couple of weeks. We have not yet got it out to our shareholders.

In the next line we show you the percentage of increase—

Co-Chairman Senator CROLL: You do not have to read the figures. Just indicate what is there. You will be questioned on the figures later.

Mr. S. STEINBERG: Very good. The items covered are sales, profits before taxes and the percentage change from year to year; the profits after taxes and the percentage of change, the percentage of sales in terms of earnings, the return on equity after tax, and then the total capital after tax. The explanations are right below.

Mr. LEBLANC: May I ask a question at this point, Mr. Chairman?

Co-Chairman Senator CROLL: Yes.

Mr. LEBLANC: The total capital after tax is a percentage—what would that be?

Mr. A. Steinberg, Vice-president and Treasurer, Steinberg's Limited: That is the percentage of the earnings after taxes—the earnings after taxes over the total capital.

Mr. S. STEINBERG: Table 2 deals specifically with the supermarket operations. The previous table includes the total sales of the company. What we have done is to use 1960/61 fiscal year as an index of 100 in terms of sales. This table shows you how the sales index has gone up each year from 100 to 107, then to 110, to 120, to 134, to 140 in terms of dollars, and it shows in the last column the average annual increase in percentage points.

The next item is the gross margin dollars—that is, the gross margin dollars earned. It shows you how it goes along, and that the average annual increase is 8.7 per cent.

The operating costs follow, and the average annual increase there is 8.2 per cent.

Then, we have taken some selected cost items. We were asked to give maintenance costs, but this was very difficult because of our accounting procedures. So, we have given you an idea of how selected items have increased on the average. You will see that warehousing has gone from 100 to 109, to 120, all the way to 155, giving you an average annual increase of 9.2 per cent.

Transportation has increased on the average by 7.5 per cent, and based on the index of 100 you will see how it has gone up by some 45 per cent, while warehousing costs have gone up 55 per cent.

Store salaries and wages have increased 67 per cent. Store fringe benefits have increased by 55 per cent.

Mr. MCCUTCHEON: What are those fringe benefits, Mr. Steinberg?

Mr. S. STEINBERG: I would have to get a complete breakdown of the fringe benefits for you.

Co-Chairman Senator CROLL: What do they contain?

Mr. A. STEINBERG: These wolud include things like paid vacations, hospitalization insurance, sickness benefits, pension plan—we can submit a detailed list of our fringe benefits, if you would like, but these are the major items.

Mr. MCCUTCHEON: When you mentioned store salaries and wages, do these reports combine all those things?

Mr. A. STEINBERG: No, they are not combined.

Senator THORVALDSON: So that I may understand this table, are these figures based on your over all volume? For instance, I see "Store salaries and wages", 111 in 1961-62, and 167 in 1965-66. Does that mean the percentage on the same dollar volume or on the increased volume?

Mr. A. STEINBERG: This is based on the increased volume. These are total dollar figures based on actual dollars.

Mr. S. STEINBERG: Then we have occupancy costs.

Senator McDONALD: What does that mean?

Mr. S. STEINBERG: That is rental on store premises. Then we have supplies, administrative costs, taxes on real estate, equipment costs and construction costs. This is to give you a quick idea of how these costs have risen through the years, and they are on an annual basis.

Mr. McCUTCHEON: I have a further supplementary question going back to store salaries and wages. It shows 100 as a base in 1961. How many stores did that represent in 1961 and how many stores does the 167 refer to in 1966?

Mr. A. STEINBERG: In 1961 it represented 132 supermarkets. Do you want the number of supermarkets for other years?

Mr. McCUTCHEON: No.

Mr. A. STEINBERG: The base year was 132.

Mr. McCUTCHEON: How much is it now?

Mr. A. STEINBERG: In the year covered now, 157.

Senator THORVALDSON: But your volume from sales has trebled during this period?

Mr. A. STEINBERG: That is correct.

Senator THORVALDSON: What are you intending to prove by this particular table? We all are naturally aware that your salaries must have gone up with your gross margins, but what about your volume?

Mr. A. STEINBERG: Our volume has gone up 40 per cent over the past five years. Sales in 1961 were 100. In 1965-66 they were 140. Our volume has trebled over a 10 year period. The introductory remarks are based on an over all ten year survey.

M. S. STEINBERG: The next item deals with the retail price mark-up—selected high turnover items.

Then we have gross margin variations between commodity groups, and it gives you the percentage margins on these commodity groupings. You will note that there is a footnote pointing out that "gross margins as shown are retail price minus supplier invoice price." The invoice price means from the point the goods reach our warehouse with nothing added on for warehousing charges or transportation charges; in other words, there is on add on.

Then we deal with a few major commodities—bread, milk and eggs, retail prices and the percentage mark-up. You will note that on bread we have two separate mark-ups. One deals with the time before we opened our bakery and picked up at the bakery, employing our own trucks, having our own people distributing and using all of our equipment, and no allowance for stales, or anything else. Once our own bakery is in operation it forms an integral part of our business and consequently we are selling bread at a much lower mark-up. In other words we do not have the added distribution cost we had when we were picking it up at the supplier who was manufacturing for us.

The next page deals with advertising and sales promotional expense and revenue. You will notice that in 1960-61 advertising and sales promotion expense was 2.46 per cent; in 1962-63, 2.75 per cent; in 1963-64, 2.73 per cent; in 1964-65, 2.78 per cent; and in 1965-66, 2.81 per cent. Then we have an item dealing with advertising and sales promotion revenue, with a figure for 1960-61 of .62 per cent; in 1961-62 they are not available; in 1962-63, .93 per cent; in 1963-64, .92 per cent; in 1964-65, 1.07 per cent; in 1965-66, 1.14 per cent. The net expense appears on the bottom line.

Now, Table 9.

Co-Chairman Senator CROLL: You have missed a page, have you not?

Mr. S. STEINBERG: I guess there will be a question period when we can discuss that.

Co-Chairman Senator CROLL: But have you the page?

Mr. S. STEINBERG: Yes, I have.

Co-Chairman Senator CROLL: Have the members the page before them?

Senator THORVALDSON: Yes.

Mr. S. STEINBERG: Table 9 deals with ready made convenience foods, and a comparison with those foods requiring preparation.

Co-Chairman Senator CROLL: If there is anything special, please bring it to our attention.

Mr. S. STEINBERG: I was asked to show what some of these food prices were before they were processed. This is the information we were specifically asked to bring along.

On the following page we have comparative retail prices on national brands versus private label items in our stores, showing the difference.

Co-Chairman Senator CROLL: Would you give us a minute or so to digest this, Mr. Steinberg, because most of the gentlemen will be asking you questions about it.

Senator THORVALDSON: Could we have a further explanation of Table 9, Mr. Chairman, while we are at it? I do not understand what it is intended to show.

Mr. S. STEINBERG: Table 9 is an answer to a specific question that was posed by the secretary of the commission, and is a comparison of ready-made, convenience food retail prices with those food items requiring preparation. We intended to give examples, there are nine of them on Table 9. On the one hand our convenience foods, and on the other hand the comparable foods that require preparation by the consumer. The relevant prices are compared one to the other.

Mr. Jack Levine, Vice-President and General Manager, Quebec Division, Steinberg's Limited: It refers to a questionnaire that was sent to us.

Senator THORVALDSON: What does it prove in general? Can you give a general statement as to what that proves?

Mr. LEVINE: It shows that prepared foods are more expensive than unprepared foods, and that a woman at home would want to buy unfreshened foods to save expense while a working woman might buy prepared foods to save time and energy.

Mr. S. STEINBERG: The price differentials and quantities are there. The next page shows the prices of national brands versus private label.

Table XI deals with the policy in respect to specials, for such items as broilers and beef. This is in answer to specific questions we were given. That is why we give them. It says:

We work prominently on the following commodities in our advertising and feature program. Beef, chicken, turkey, ham, frozen and fresh lamb, veal, pork loins. Our method for selecting one of these items each week is taking into consideration:

Price, time of the year or season, and availability of merchandise. Such items as turkeys and hams are featured during the Easter, Thanksgiving and Christmas periods which is a natural tie in with these holiday periods. During the winter months we concentrate heavily on featuring beef and pork. During the summer period with many people anxious to serve quick and easy meals and to do less cooking, such items as B.B.Q. chickens and hams are advertised since preparation of these items is less time consuming than beef and pork.

When fresh veal or fresh Canadian lamb is available in the quantities necessary for our purposes, we will advertise these.

Setting of prices for these features is based on the cost of merchandise at time of feature, past history and performance of that particular commodity—that means, the sales—is also taken into consideration. In other words, the price at which you sell has a lot to do with the tonnage or volume you are going to move. The gross margin earned on chickens 2-3 pounds is approximately ½¢ to 1½¢ pound—beef approximately 10-15 per cent—pork 12-15 per cent—turkeys 1¢ to 4¢ pound—lamb and veal 12-18 per cent—ham 1¢ to 5¢ pound.

The profits shown here include only the cost of raw merchandise to retail sales and do not show labour at store level, packaging, depreciation, etcetera.

In other words, the cost of packaging and everything else is not taken into consideration in the profits which we feature and, as I have already indicated, out of that we pay for all the labour and the supplies and what-not.

During a feature we never adjust upward on other commodities to make up the difference of gross margin lost on the feature product.

In other words, we do not play see-saw. If we sell something, it comes out of the margins that we earn. By "see-saw" we mean that we do not reduce one item and raise another.

On the next page, there is a question: "How do you assure yourself that your prices are competitive?" and we answer it:

As to competitive price-checking, for over fifteen years, Steinbergs has had a program of retail price analysis. The present program consists of:

1. an everyday spot-check on fluctuating price commodities such as eggs, produce and meat items and

2. a complete retail price analysis on a regular basis of all major competitors in our trading areas. From prices collected in each store on over 800 comparable or identical items, it is possible to determine what the price level is in any store or region.

At the same time, each store manager is expected to keep close tab on food prices in his market area and to keep management informed on price levels, changes in price and services available in competitive stores.

As a result of such studies, we have determined that our total value is equivalent to or better than any competitor in the areas in which we operate.

I guess you hear that from every supermarket operator.

Senator THORVALDSON: Yes, we have had that yesterday and today.

Mr. S. STEINBERG: I have been asked to comment on the role of the independent. We have Dominion Bureau of Statistics figures: In the Province of Quebec, the chain store share of the market was 33.0 per cent in 1960; 32.9 in 1961, 31.4 in 1962, 30.3 in 1963, 31.1 in 1964 and 29.8 in 1965.

The independent share of the market has been 67.0 in 1960 and then it rose all the way to 70.2 per cent in 1965. Therefore, you can see that the independents are doing quite well in the Province of Quebec. They do the lion's share, 70.2 per cent.

Senator THORVALDSON: Would you indicate what you mean by "independents"? Do you mean the grocery store, plus people like IGA?

Mr. S. STEINBERG: I have not got to the break-down in so far as the DBS figures are concerned, but I would think they take all these independents, whether they belong to voluntary groups or not—independents, as apart from corporate chains.

In Ontario the situation is somewhat different. It is evident that the chains have maintained their share of the market, because they start out at 60.5 per cent in 1960 and in 1965 they are doing the same thing, 60.5 per cent. The independent share of the market was 39.5 per cent in 1960 and some five years later the same figure holds true.

Mr. ALLMAND: You say on page 5 that you operate a wholly owned premium stamp company. Is this the Pinky Stamp Company?

Mr. S. STEINBERG: You are right.

Mr. ALLMAND: I have been told through letters and telephone calls from some of my constituents that when they receive these pinky stamps from Steinbergs they cannot turn them in for cash or other groceries. They say this is different, that there are some premium stamps at other stores where they can turn them in for cash. They say that at one time they could do this but they cannot do it now.

M. S. STEINBERG: They have been trying to change them for merchandise or other goods?

Mr. ALLMAND: No, trying to turn in the stamps for cash.

Mr. S. STEINBERG: This is not permissible under the Criminal Code.

Mr. ALLMAND: You say it is not permissible under the Criminal Code?

Mr. S. STEINBERG: For cash, no.

Mr. ALLMAND: Did you ever do it at one time?

Mr. S. STEINBERG: Here is what we did. When a customer made a purchase and she wanted cash for her stamps, we merely deducted from the amount of her purchase.

Mr. ALLMAND: At the time of purchase?

Mr. S. STEINBERG: At the time of purchase. In other words, she was really trading in her stamps for merchandise.

Mr. ALLMAND: You say this is not legal now?

Mr. S. STEINBERG: Cash is not legal.

Mr. ALLMAND: But this procedure you describe.

Mr. S. STEINBERG: Yes it is legal because she is getting merchandise for stamps.

Mr. ALLMAND: What about other groceries?

Mr. S. STEINBERG: I have just said that. This is what she does. She can get other groceries. If she got $5 worth of groceries, instead of paying out $5, she could pay, let us say, $2.50 in stamps and $2.50 in cash. In that way she would be getting groceries for those stamps.

Mr. ALLMAND: My point is, can she bring in a book—?

Mr. S. STEINBERG: Let us say she came in with a book and only wanted cash—no.

Mr. ALLMAND: If she came with a book and wanted groceries, a couple of months afterwards?

Mr. S. STEINBERG: Yes, it doesn't matter when.

Mr. ALLMAND: Some constituents say they have not been able to get groceries.

Mr. S. STEINBERG: I am not aware of that. When we first publicized stamps there was some uncertainty about them so we publicized the fact that she could get groceries for them, but we found that so few wanted to redeem their stamps for groceries, for reasons of their own, that we stopped advertising or promoting this alternative.

Mr. ALLMAND: However, with respect to stamps, I presume that your gifts are owned by the Pinky Stamp subsidiary—the gifts?

Mr. S. STEINBERG: That is right.

Mr. ALLMAND: This company places on those gifts a number of stamps that will give a certain return—let us say, a toaster requires so many stamps?

Mr. S. STEINBERG: That is right.

Mr. ALLMAND: Does your subsidiary make a profit on those gifts?

Mr. S. STEINBERG: They do.

Mr. ALLMAND: So you make a profit on the gifts as well as on the groceries that you sell on behalf of the stamps?

Mr. S. STEINBERG: Yes, but the earning from the Pinky Stamp Company finds its way into that 1.9 cents on the dollar that we earn.

Mr. ALLMAND: The Pinky Stamp Company is a fully owned subsidiary?

Mr. S. STEINBERG: A fully owned subsidiary.

Mr. ALLMAND: Is it in any way related to the Miracle Mart Department Store?

Mr. S. STEINBERG: The Miracle Mart Department Store is also a wholly-owned subsidiary.

Mr. ALLMAND: When you are buying your gifts, for example, is the buying done through the same company?

Mr. S. STEINBERG: No, the Pinky Stamp Company makes all its own purchases.

Mr. ALLMAND: I have here a newspaper report from the Ottawa *Citizen* in which it says that Steinberg's sales are at a new high. It says that consolidated sales of over $400 million were recorded by Steinberg's for the last year. It says that your sales have increased by 5.75 per cent over the previous year. Is this 5.75 per cent increase due to increased prices or to volume? Can you give me an answer to that?

Mr. S. STEINBERG: The 5.75 increase? Yes, it is in sales. All of one's profits are derived as a result of sales. Perhaps I am not understanding your question.

Mr. ALLMAND: Well, when the consumer or citizen looks at this figure—and this came right out at the time of this controversy over increased prices—the consumer sees that Steinberg's sales are at a new high and that they are making record-breaking profits, and he concludes that it is because they are charging so much. Whether right or wrong, this is the reaction.

Mr. S. STEINBERG: I will try to explain it to you. The year before we had $379 million. This year we did some $400 million. If we did $21 million of additional business, we certainly did it with the intent of earning a profit. If we earn 1.9 per cent of our sales for every dollar this year more than last year, we are making a profit.

Mr. ALLMAND: The same report says that last year you opened 100 food stores. I presume that means new stores.

Mr. S. STEINBERG: How many?

Mr. ALLMAND: One hundred.

Mr. S. STEINBERG: I hope to see the day when we might open 100 new stores.

Mr. ALLMAND: It says:

> In reviewing the company's activities during the past year, Mr. Steinberg noted the opening of 100 food stores,—

Mr. S. STEINBERG: The newspaper said that.

Co-Chairman Senator CROLL: That is in the newspaper report.

Mr. S. STEINBERG: They may have put an extra zero on. The newspaper may have added an extra zero. I do not know.

Mr. ALLMAND: Well, is it 10?

Mr. S. STEINBERG: It must have been 10, yes. Ten, yes, that is correct.

Mr. ALLMAND: It is 10?

Mr. S. STEINBERG: Yes.

Mr. ALLMAND: I will finish the sentence in the quotation:

> —a large Steinberg Miracle Mart department store and a modern produce distribution centre.

These questions were asked this morning by another witness, but it seems that your expansion program was rather large last year, even though it is only 10. How does this increase in construction and expansion reflect itself in your prices?

Mr. S. STEINBERG: Well, when you open a store unit, an individual unit, you do it with the idea of generating volume, and you hope to be able to earn a profit with the volume you generate in that store.

Mr. ALLMAND: How much, or I should say how often are your stores generally used to capacity?

Senator THORVALDSON: As a percentage of sales.

Mr. S. STEINBERG: When you say "to capacity" unfortunately, if we could have our stores busy from Monday morning on, or if we could have the business spread out through the week, that would be a wonderful thing, but the biggest part of the business always comes at the weekend, Thursday, Friday and Saturday, so that on Thursday, Friday and Saturday they are really busy.

Mr. ALLMAND: When you say Thursday, Friday and Saturday, do you mean all day Thursday, Friday and Saturday, or just in the evenings?

Mr. S. STEINBERG: Well, I would have to take count in terms of every hour just to see how that distribution of sales is done, but, usually, the heaviest part of the business is done in the evenings.

Mr. ALLMAND: You are open two evenings in Montreal?

Mr. S. STEINBERG: Yes, Thursday and Friday evenings. These are very heavy. In the past week, I understand from speaking to the zone manager in this area, Ed. Gagnier, who picked me up at the station and took me over to the motel, I understand that business in the early part of the week was quite slow, Tuesday, Wednesday and Thursday—although Thursdays are usually busier—but Friday and Saturday were busy and that it was almost impossible to cope with the volume. We cannot control the habits of the consumer. She is going to shop when it is most convenient to her, and so far it is going more and more to weekend shopping or to evening shopping.

Mr. ALLMAND: Do you do anything to try to attract the shopper in the early part of the week?

Mr. S. STEINBERG: Yes. We give 100 Pinky stamps away every Monday morning to get the business rolling. That is, 100 Pinky stamps with every $5 purchase, over and above the stamps we give for the purchase itself.

Senator THORVALDSON: I would like to ask, Mr. Chairman, if any of these questions are relevant to the issues before this committee. It seems to me—

Co-Chairman Senator CROLL: Oh, yes, they are.

Senator THORVALDSON: It seems to me that all of this information has been given in Mr. Steinberg's brief.

Co-Chairman Senator CROLL: No. Senator Thorvaldson. He is going to get to the point in a minute. Mr. Allmand is getting at the premiums and giveaways.

Mr. ALLMAND: That is right.

Mr. SMITH: Mr. Chairman, I have a question relevant to the point, namely, does the uneven purchasing pattern, Mr. Steinberg, the fact that most people shop Friday or Saturday, does that materially increase your labour costs?

Mr. S. STEINBERG: No. You effect your lowest labour costs when you are busiest and you get the highest productivity from your people when you are busiest.

Mr. ALLMAND: In your report somewhere it says that you have a lot of part-time help too.

Mr. S. STEINBERG: Right.

Mr. ALLMAND: You take them on for peak periods, do you?

Mr. S. STEINBERG: For the weekends, yes. We get all the high school boys coming in after school.

Mr. ALLMAND: You say in your brief, Mr. Steinberg, that you have producers and bakeries and distributors and buyers for you. I presume this is part of your same organization, these bakeries and so on, and I forget the names of all these various things. You have centralized meat plants and so on and so forth. Do you have your own wholesale agencies for all products?

Mr. S. STEINBERG: You see, when you use the term "agency" I do not know what you mean.

Mr. ALLMAND: Do you buy from wholesalers or does your company buy directly from the distributors or manufacturers?

Mr. S. STEINBERG: Well, you see, you have got to have different categories. If you talk about produce, the most part of it is imported direct from the sources of supply. What we call fill-in then comes into play. If you endeavour to import 100 per cent of your needs and you import too much, you can sustain heavy losses. Therefore, what we do is buy up to perhaps 75 or 80 per cent of our requirements and then fill in from wholesaler suppliers and importers for the balance. In this way one does not get losses and spoilage by buying more than one can sell.

Mr. ALLMAND: These markups that you have got in the tables at the back, where you have examples of retail price markups—some of these products are products that you make yourself, for example, you have Steinberg's ketchup and other Steinberg's products.

Do you also have a markup from your distributing agency or your producing agency to your retail agency? These are two different things.

Mr. S. STEINBERG: When we import it goes through our central warehouse. We have a produce warehouse, and you have heard me say that it is the latest and best and most efficient warehouse, and so forth. When merchandise comes into that warehouse we take the cost of the merchandise from the primary producer, let us say, and it is landed at our warehouse with the freight charges and what not, but we do not add anything more. In other words, we do not charge for warehousing in terms of our percentage markup.

You see, the practice in chain stores such as ours is not always the same. Some of them charge a warehousing charge for the handling at the warehouse level and thereby the markup that they would show you on a percentage gross margin would be lower than we might reflect as a result of that.

Mr. ALLMAND: That is what I was trying to get at. So these markups you show here are the only markups that come to Steinberg's. That is the whole process that it goes through?

Mr. S. STEINBERG: Yes, that's right.

Mr. A. STEINBERG: Mr. Allmand, we have noted that if we added the warehousing and other costs on, it would add an additional 2.5 to 6.0 per cent. We have put a footnote on the relevant sheets.

Mr. ALLMAND: Oh, yes, I saw that, but I was not sure of what it was. What percentage of non-groceries, such as toothpaste, do you presently sell in your stores?

Mr. A. STEINBERG: I have not got that information here.

Mr. ALLMAND: The witnesses this morning told us that non-food items—non-grocery items—are becoming a greater and greater item in the bill going out of their food stores each week.

Mr. S. STEINBERG: Let me put it this way, and I will make it brief, some years ago food stores started handling more and more non-foods such as articles that a woman would normally use in a kitchen.

Mr. ALLMAND: You even sell records and books.

Mr. S. STEINBERG: We sell anything we feel we can sell at a profit. Then from that we went to health and beauty aids; then the items that are normally bought in drug stores. From there we have gone into full fledged department stores.

Mr. ALLMAND: You do not know what percentage of your business is in the non-foods?

Mr. S. STEINBERG: I did not say we do not know. I said I have not that information available with me now.

Mr. ALLMAND: I was wondering how your stores have felt the boycotting in the Montreal area.

Mr. S. STEINBERG: I just told you what happened right here in Ottawa. They were a little bit slow in the earlier part of the week, but at the end of the week they could not cope with the volume.

Mr. ALLMAND: These are your stores in Ottawa?

Mr. S. STEINBERG: This is what E. Gagnier, our Ottawa zone manager, mentioned to me this morning. In so far as the Montreal stores are concerned, we did a little less than we anticipated this week-end, but then they opened the subway, Metro, and there were a million people there and it might have interfered with their shopping a little bit.

Co-Chairman Senator CROLL: We will leave it for the moment.

Mr. ALLMAND: Yes, that is all for the moment.

M. LEBLANC *(Laurier):* Monsieur le président, à la première page de la présentation en français, on dit:

> Son exploitation s'est centrée dans les provinces du Québec et de l'Ontario.

Est-ce qu'on pourrait savoir le nombre de magasins qu'il y a dans le Québec et le nombre de magasins qu'il y a dans l'Ontario, séparément des marchés d'alimentation et des magasins à rayons?

M. S. STEINBERG: On a 107 magasins au Québec et 53 magasins en Ontario, et 12 magasins de rayon—9 dans Québec et 3 en Ontario, des magasins à rayons.

M. LEBLANC *(Laurier):* Je vous remercie.

Maintenant, vous avez 160 magasins d'alimentation en tout et 12 magasins à rayons. Quel serait votre classement parmi les magasins à chaîne du Canada entier?

M. S. STEINBERG: Je n'ai pas les ventes des autres.

M. LEBLANC (*Laurier*): On a de vos compétiteurs qui sont venus dont un est cinquième et l'autre est premier.

Co-Chairman Senator CROLL: What was the question?

Mr. S. STEINBERG: He wants to know how we compare in sales volume with reference to the other chains.

Mr. A. STEINBERG: Not all the chains make their information on sales public.

Co-Chairman Senator CROLL: Oh yes they do. There has been a new day; they all make them public now.

Mr. Leblanc, we will, of course, have that information as we gather it and go along, and we can get that, I think from D.B.S.

Mr. LEBLANC (*Laurier*): Does it mean you do not want me to ask it?

Co-Chairman Senator CROLL: No, I want you to ask it.

Can you get it?

M. NATHAN: On n'est pas certain si on est troisième ou quatrième. On n'a pas les chiffres d'un des cinq. Du moment qu'on va les recevoir, on va vous les donner.

M. James M. DOYLE: Il s'agit que chacun des exercices des compagnies se termine à différentes dates. Par exemple, nous terminons en fin juillet et quelques unes des autres compagnies ne terminent qu'en fin d'année.

M. LEBLANC (*Laurier*): Il y en a qui terminent en mars et d'autres en décembre. Mais quelle que soit l'année fiscale que vous choisissiez, vous avez quand même une année de 12 mois pour vous baser.

Co-Chairman Senator CROLL: Mr. Leblanc, what is your question? Let us get the question.

M. LEBLANC (*Laurier*): Ma question, monsieur le président, est ceci: quel rang occupez-vous dans le domaine des magasins à chaîne, comparé avec les autres magasins à chaîne?

Co-Chairman Senator CROLL: The interpreter says to me, "What is their rank as compared with other chain stores with respect to volume of sales?" Will you take a note and have an answer for us for the record? We will get the answer, Mr. Leblanc. Is that all right?

Mr. LEBLANC (*Laurier*): Yes.

Co-Chairman Senator CROLL: Go ahead, Mr. Leblanc.

M. LEBLANC (*Laurier*): Nous avons eu des compétiteurs qui sont venus nous indiquer les différences entre le prix sur leur propre marchandise et les prix sur des marchandises provenant des entreprises nationales.

Et j'ai remarqué, dans les chiffres qui ont été soumis, que lorsque nous avons la marque A et B ou même C, que les chiffres des deux ou trois marques nationales—que le prix vendant de cet item-là comme le café, par exemple, est le même prix. Est-ce que ceci voudrait impliquer que les entreprises nationales dans l'alimentation s'entendent pour fixer des prix de vente équivalents?

Par exemple, le café torréfié, ce matin, les sauces à salade, les biscuits, les sachets de thé, le beurre d'arachide, sont des prix où des marques nationales sont identiques et supérieures aux marques privées des témoins qui ont passé devant nous.

Co-Chairman Senator CROLL: They asked a question and want an answer.

M. S. STEINBERG: We cannot answer that.

Co-Chairman Senator CROLL: Why can you not answer it?

Mr. A. STEINBERG: Because he is referring to testimony that took place this morning.

Co-Chairman Senator CROLL: He is asking you to compare it.

Will you repeat your question, Mr. Leblanc? They don't understand your question.

M. LEBLANC (*Laurier*): Parmi les informations que j'ai eues pour les magasins d'alimentation, chaque magasin a fait une comparaison des marchandises qu'il fait faire à son nom et qu'il met dans le magasin, à son nom personnel, comparé à une marchandise qui est une marchandise nationale. Or, nous avons remarqué, et spécialement dans les exhibits déposés ce matin, que les prix des

magasins à chaîne, quand c'est sa propre marchandise sont, premièrement, supérieurs; deuxièmement, nous avons remarqué que ces prix-là, quand il y a deux ou trois prix nationaux, comparés avec les prix du marché à chaîne—son produit personnel—que les autres prix sont absolument identiques, au point de vue prix de vente. C'est-à-dire le café torréfié, marque national A est 54c. et la marque nationale B se vend également 54c.—tandis que le café vendu par le magasin à chaîne, à son nom personnel, est meilleur marché.

Alors, la question est ceci: est-ce qu'il y aurait entente entre les entreprises qui vendent des produits d'alimentation sur une base nationale, et par conséquent, qui n'ont pas de magasins à chaîne et font vendre tous leurs produits par des magasins à chaîne—est-ce que ces compagnies font une entente pour que le prix de vente soit identique?

Senator THORVALDSON: Mr. Chairman, on a point of order, the honourable gentleman has made a statement which I do not think is factual in regard to the evidence of these people who were here this morning and yesterday. I do not recall anything in their briefs to indicate the prices of these commodities, these standard brand commodities were identical in their stores. I think the information they gave us was on a percentage basis and not on a unit basis. Consequently, I do not think it is fair to ask these people a question based on information which is not factual.

Co-Chairman Senator CROLL: Just a minute. Mr. Leblanc understood they did. See if it makes sense to them.

Mr. A. STEINBERG: To answer your question specifically, Mr. Leblanc, the prices of nationally branded goods in the national chain stores vary greatly. They vary from store to store, and they vary from week to week, and from month to month. As far as the prices you referred to earlier in your question, the private label prices, are concerned, we have detailed the private label prices in our stores—a selected group—and compared them with the national brands. This is shown in one of the tables we have here, and to which you can refer. It is Table 10.

Co-Chairman Senator CROLL: Mr. Leblanc, are you finished?

Mr. LEBLANC (*Laurier*): No, I am not.

Mr. S. STEINBERG: We will try to satisfy you.

Mr. LEBLANC (*Laurier*): This morning we had a witness who tabled some exhibits. In his exhibit K, in respect of roasted coffee we see that National Brand A, 8 ounces, is selling for 54 cents, and National Brand B, 8 ounces, is selling for 54 cents. We see that also in the 16-ounce size; it is the same price, 99 cents. His own brand was less expensive. We see the same thing in regard to biscuits, tea and peanut butter—well, that is my point.

Co-Chairman Senator CROLL: The point is that in that table of comparative retail prices is shown the difference in price between the national brands and the private labels. I have looked over it, and in each case they indicate that the private label is cheaper than the national brand.

Mr. LEBLANC (*Laurier*): I am saying that too, Mr. Chairman. My question is: How can the nationally advertised brands be of exactly the same selling price, as is shown on the exhibit I have here?

Mr. LEVINE: In respect of coffee, we picked only one brand, namely, Maxwell House. We sell several other brands of coffee, such as Red Rose, and so on. We have several brands on the shelves, but they are not at the same price. We may have picked the same item in respect to biscuits as the company this morning did, but the prices on the shelves are not identical; they are not the same. Maxwell House coffee may be cheaper than another brand of coffee. Red Rose coffee may be more expensive than another brand. They are not all the same price on the shelves. They are different.

Senator O'LEARY: May I ask a supplementary question, Mr. Chairman? Do you know if any of your suppliers of Steinberg labelled products also produce for your competitors under their label?

Mr. LEVINE: That could be, but we do not know. We only know what we do.

M. LEBLANC (*Laurier*): Nous avons votre profit de 1.9 pour 100 par dollar de vente. Est-ce que vous pourriez nous donner séparément le profit sous le magasin d'alimentation et leur profit sous les magasins à rayons, afin de nous guider pour savoir lequel rapporte le plus, soit le magasin à rayons ou le magasin d'alimentation?

Mr. A. STEINBERG: Our department stores and our supermakets are within the same company. We do not have a separate company for supermarkets and a separate company for the department stores. There is a great deal of central organization such as financing and accounting, and things of this nature, which are done for both areas. Much of our buying, for example, where it is efficient, is done for both stores. For example, health and beauty supplies are sold in the supermarkets and also in the department stores. We have a maintenance organization which services our food stores and our department stores. Our design department, our architectural department and the supervision of construction is common to both the department and the food stores. So, we have a corporate group for purposes of efficiency which serves both areas. We do not have the net profit for both areas separately because of our accounting methods.

Mr. WHELAN: Mr. Chairman, I should like to ask one question. I do not know whether this is a repetition of the one that was asked, but can you tell us in what department you make the most money?

Mr. LEVINE: We make the most money in our grocery department.

Mr. WHELAN: In the food store where you handle produce of all kinds, and canned goods—

Mr. S. STEINBERG: The biggest money maker is the groceries because that is where we get the greater volume. There is a difference in the margins. You get a higher margin on perishable goods, but you do not earn the dollars. You make your money on the groceries, because this commands the biggest share of the volume.

Mr. WHELAN: What is the volume?

Mr. S. STEINBERG: Sixty per cent of our volume is in groceries.

Mr. WHELAN: But you do not make that on mere produce?

Mr. S. STEINBERG: No, because of the spoilage and handling costs.

Mr. WHELAN: What percentage of spoilage would you have?

Mr. S. STEINBERG: Two per cent or 3 per cent. In truck gardening produce it can run to 10 per cent or 15 per cent. It depends on the commodity and the time of the year.

Mr. WHELAN: From where do you get the bulk of your product? Do you buy it locally in season?

Mr. S. STEINBERG: Yes, we buy it as close to home as we can, when the produce is in season.

Mr. WHELAN: Do you buy any fresh produce, or other produce, from any country other than the United States when you are importing?

Mr. S. STEINBERG: Sure.

Mr. WHELAN: From what countries?

Mr. LEVINE: We import from Belgium, Israel, South Africa—any country that has the quality of goods that the population of Montreal, and our customers, wants.

Mr. WHELAN: Do you buy peanuts from any country in Africa?

Mr. LEVINE: No, we are buying our peanuts from Hong Kong.

Mr. WHELAN: What mark-up do you have on this produce that you bring in from these countries which have cheaper labour costs—the developing countries, we will call them?

Mr. LEVINE: It varies on the crop and the market conditions. There is no fixed mark-up.

Mr. WHELAN: Is it better than the mark-up on the produce you buy from the United States?

Mr. S. STEINBERG: When you buy from other than the United States it is because of the question of supplies being available. When you go further afield it is because of the fact that nearer to home you cannot get the merchandise. They have not got it. It is out of season. It all has to do with seasons when you are buying fruits and vegetables.

Mr. WHELAN: The reason I am following this line of questioning is that a short time ago we had the Commonwealth Parliamentary Association meeting here, and many people from Commonwealth countries in Africa and Asia were quite surprised at the prices we were paying. It seemed to them, from the prices that were being charged here, that they were practically giving away the produce.

Mr. S STEINBERG: Well, transportation is a problem, and many of these countries have not adequate refrigeration facilities. By the time the produce gets here it is practically all wasted.

Mr. WHELAN: On Table 9 you compare Quaker Oats with prepared oats. What is the difference between—

Co-Chairman Senator CROLL: Is this the first item where it is indicated that Quaker Ready to Serve Oatmeal, 10 ounces, 37 cents, and Quaker Quick Oats, 10 ounces, 15 cents?

Mr. LEVINE: One is instant, and the other you have to cook. In other words, we were asked to give some examples of the retail cost of some raw or semi-processed items of food compared to processed foods—for example, squeezed orange juice versus frozen orange juice, coffee in the bean versus instant coffee, pasta dishes with all ingredients combined compared to the ingredients bought separately, and so forth. We tried to show some of these differences. In other words, we were asked that question, and we put this in.

Mr. WHELAN: Can you tell me what the difference in cooking is?

Mr. LEVINE: Yes, one takes half an hour, and one takes three minutes.

Co-Chairman Senator CROLL: Which tastes better?

Mr. LEVINE: I do not know. I do not eat oats.

Mr. WHELAN: I am only making a comparison on this, Mr. Chairman, on account of the fact that one bushel of oats, weighing 34 pounds, costs 60 cents. I am just making this comparison because I know how they operate in Quaker Oats, and I cannot see the difference, and I do not see why this type of thing should be on the market just to entice the consumer to buy it. There is hardly any processing involved here. It needs just hot water and a stove.

Mr. S. STEINBERG: But there is the time element in cooking. It used to be three minute oats, and now you have instant oats.

Mr. WHELAN: It says 20 minutes for cooking. I have never cooked it that long in my life.

Mr. S. STEINBERG: I happen to eat oatmeal 365 days in the year, and I like it cooked for a good half hour, even for an hour.

Mr. WHELAN: I have another question. Getting back to canned produce, when you buy a large volume of canned produce from different processors or different manufacturers, do you bargain with them and tell them how much ou are going to pay for the particular produce?

Mr. LEVINE: Sure we bargain with them and we try to buy as cheap and as reasonably as we can, because it is only in that way that we can give the consumer the best price. Of course, it depends on the quantity, but we try to buy and bargain the best we can.

Mr. WHELAN: Many suppliers in the past, as I understand, put the produce on the shelves, and the stores charge it as part of the advertising in the big ads in the paper. Do you follow that practice?

Mr. LEVINE: No, we don't. We don't allow any supplier to pack our stores by any policy of the company, other than some dairy products. They cannot touch our shelves, and we do not charge companies for any shelf space or facings in our stores.

Mr. WHELAN: Is your produce sold over the counter to the customer before the processor and manufacturer have been paid for it?

Mr. LEVINE: Would you repeat that?

Mr. WHELAN: Is the produce you sell to the consuming public bought by the consuming public most of the time before the processor is paid for it?

Mr. LEVINE: I don't think so, because we take all our terms ten days at two per cent; so if it is on a term basis this is how we pay.

Mr. WHELAN: So you would have no cost in that way because you would have your money on hand before paying the producer at all?

Mr. LEVINE: I don't know; that could be. But I say that we buy on the best terms we can and pay the terms they want and take our discount wherever possible.

Mr. WHELAN: Are there no instances at all where you would pay the processor say six weeks before you sell your produce?

Mr. LEVINE: Never.

Mr. S. STEINBERG: You are not talking about preserves?

Mr. WHELAN: All canned goods.

Mr. S. STEINBERG: Usually canned goods are bought in season after canning from whoever the processor is, and because of the climatic conditions you usually buy on their terms. If you get two per cent, ten days, you are paying him long before you begin to use that quantity of merchandise.

Mr. WHELAN: Regarding fish products, what is your mark-up on frozen fish? Is it a good or bad commodity to handle?

Mr. LEVINE: I haven't got the figures here, but would guess it to be about 25 per cent for frozen fish. It is a good product to handle, and we have no waste.

Mr. WHELAN: That is all.

Senator MCDONALD: I have one supplementary question referring to the terms of 2 per cent, 10 days. For instance, if you paid for your canned peaches at the end of the canning season for the year and made arrangements for "x" cases to be delivered a month, you would have 12 payments to make rather than paying for them all in one period, and would get your two per cent every month, is that right?

Mr. S. STEINBERG: Only what we receive, and that is it; but I don't know if canners of peaches allow you 2 per cent. Do you know off hand?

Mr. LEVINE: No. In canned goods, fruits and vegetables, there is no discount, so there is no cash discount in canned goods.

Senator CARTER: Mr. Chairman, Mr. Steinberg told us in his brief that they manufacture quite a range of products but these are mostly foods. Do you make any soap products, detergents, liquid soaps?

Mr. S. STEINBERG: We do not manufacture ourselves. We do a lot of contract buying for our private label.

Senator CARTER: You have an item listed of Vel Liquid Detergent, $1.09, and Steinberg at 59 cents, a saving of 50 per cent—almost half price. Who manufactures that product for you?

Mr. LEVINE: The Witco Chemical Company.

Senator CARTER: Do they have a national brand?

Mr. LEVINE: No, they do not. They are a prime producer of products that sell to all the soap people and they produce private labels; they don't have a national label.

Senator CARTER: Do you stipulate any tests for the product?

Mr. LEVINE: We have a quality control lab that first tests out the product they present to us, and then we give them back the recipe or formula we want them to manufacture to, and our quality control lab checks every car load or truck load that comes into our plant and makes sure that the company lives up to that standard.

Senator CARTER: You have your own lab?

Mr. LEVINE: We have our own technicians.

Senator CARTER: Do you compare the private product with the standard brand product?

Mr. LEVINE: Yes.

Senator CARTER: And analyze both products?

Mr. LEVINE: Continually.

Mr. S. STEINBERG: If that manufacturer happens to have a brand.

Senator CARTER: Do you analyze other standard brands?

Mr. S. STEINBERG: Definitely, even when passed under Government standards we check them just the same and if the same batch does not come up to our standard we return it.

Mr. LEVINE: We do national brand checking as well as private label.

Senator CARTER: Of all?

Mr. LEVINE: Everything we sell in our store goes through our lab at least three times a year for national brands. Everything in private label goes through our lab every time a car load or shipment comes in.

Mr. S. STEINBERG: We have two separate labs, one for private label and one for national brands.

Senator CARTER: Would any of your chemical analyses justify the 50 per cent difference between the Steinberg and the Vel Liquid Detergent?

Mr. LEVINE: We don't state the price we pay to national products.

Senator CARTER: I am talking of quality.

Mr. LEVINE: Quality, no. Equal, yes, equal to the best, and we sell for less.

Senator CARTER: Now, am I correct in my interpretation that this brand you sell for 59 cents is in all respects, as far as quality is concerned, up to the same standard as the Vel Liquid Detergent which is sold for $1.09?

Mr. LEVINE: Yes.

Senator CARTER: I come now to another item. You have said that you have your own bakery now. For October 1966 you gave your margin of mark-up as 10.25 per cent, whereas earlier it was 23 per cent?

Mr. LEVINE: Yes.

Senator CARTER: What was the selling price per loaf?

Mr. S. STEINBERG: Before you go on, we sold the bread at 23 per cent. I pointed out that we picked that bread up at the bakery, provided our own racks, distributors, assemblers, and everything of our own, and then when we deliver from the bakery to the store we have the deliveries and stales, and that brought the margin down very substantially and that is why from our own bakery we had it at a lower mark-up.

Senator CARTER: At how much per loaf?

Mr. S. STEINBERG: Twenty three cents.

Senator CARTER: What are you selling it for now?

Mr. S. STEINBERG: Two for 39 cents, and some mark-ups, depending on competitive conditions, are lower.

Senator CARTER: Who is your main competitor in Ottawa?

Mr. S. STEINBERG: IGA.

Senator CARTER: And you are still making a profit on two for 39?

Mr. S. STEINBERG: Well, I am not so sure that we are making a profit at two for 39, but we have got to be competitive and that is what counts most.

Senator CARTER: Do you have a policy of using loss leaders?

Mr. S. STEINBERG: It all depends on the term. If you mean selling below cost, we are against selling below cost.

Senator CARTER: Selling at two for 31 is not a loss leader?

Mr. S. STEINBERG: Since we manufacture our own bread, we can always justify two for 31 but it would not give us any margin.

Senator CARTER: You stated your competitor in Ottawa is IGA. Does he make his own bread?

Mr. S. STEINBERG: No.

Senator CARTER: What is his price? Is he selling at two for 31?

Mr. S. STEINBERG: Yes, that is why we are down to two for 31.

Senator CARTER: On his costs, is he able to do that?

Mr. S. STEINBERG: He may have a deal with a man who would give him a special once every three or four months and he would probably pay the regular price for the rest of the season. I do not know his arrangements.

Senator CARTER: But he does not have the advantage of manufacturing the product?

Mr. S. STEINBERG: If he is not manufacturing—I do not know.

Senator CARTER: He does not make his bread like you do?

Mr. S. STEINBERG: I do not know for sure, but I doubt it very much. I am satisfied he could not afford to sell it at the same price we do.

Senator CARTER: Would you say it is a price war?

Mr. S. STEINBERG: It might be.

Mr. OLSON: I invite some explanation, if you can help us with this matter of the variation in the percentage of mark-up. On your exhibit marked "Retail Price Mark-Up, Selected High Turnover Items", there is one matter I wish to refer to. I would like to see if we can get some explanation why it is your percentage of margin on butter, for example, is 4.2 per cent. We notice that A & P stores is 4.1 per cent. We do not have this figure for Dominion Stores. Then we turn to sugar and we find that the mark-up is 15 per cent.

Co-Chairman Senator CROLL: Where are you reading from? I cannot find it?

Mr. Olson: It is the table marked "Gross Margin Variations Between Commodity Groups—4.5 per cent Mark-Up on Butter—and on the table just before that is where sugar is—sugar is not listed in this. Anyway, Dominion Stores have shown us 14.5 per cent; A & P shows 15 per cent, which is fairly close; and it would appear that you are marketing butter at somewhere between 4 and 4 1/2 per cent. Butter is an item that requires refrigeration and presumably would be a higher cost of handling this item than sugar which is dry and requires no refrigeration. Why the tremendous difference between these two items that I presume you sell a large quantity of each?

Mr. S. Steinberg: Traditionally I suppose butter was always used in the chain store business as an item on which they took a very small margin.

Mr. Olson: And this has been consistent for a number of years, you have taken a small margin on butter?

Mr. S. Steinberg: As far as I can remember.

Mr. Olson: Can you explain to me why on Prem luncheon meat, for example, you require 30.9 per cent mark-up? There is no loss in this product, is there?

Mr. S. Steinberg: No. No. But why do we require it?

Mr. Olson: Why do you take 30 per cent on that item?

Mr. S. Steinberg: You have just partly answered it, when you say, why do we take 4 per cent on butter. If we have an operating cost that we will say averages something around 20 per cent—I am using that round figure—and if we get 4 per cent on one item, we have to compensate on some other item.

Mr. Olson: And Prem is one that you have decided on?

Mr. S. Steinberg: The point is that it also has something to do with volume. Prem may not be a very high volume commodity, while butter is a very high volume commodity, tremendously high, so we may earn more dollars on butter at 4 per cent than we can earn dollars on Prem at 30 per cent.

Mr. Olson: You would not expect to earn as much dollars on one ton of one product as you would on 100 tons of another product?

Mr. S. Steinberg: Yes, that is why we have this variation. We have to have a price mix, based on sales, that will enable us to end up with a profit.

Mr. Olson: Can you give an explanation why there is a 17.8 per cent mark-up in 1964-65, and then it is raised to 30 per cent in 1965-66?

Mr. S. Steinberg: Yes, I can ask Mr. Levine to answer that.

Mr. Levine: The year that we had a low market, the Government had so much pork they did not know what to do with it and they asked us to try to move pork for them. If we did not, they would have to dump it. The change helped them and eased the market. We tried to move the pork, in order to help the Government out.

Mr. Olson: Would you like to give an explanation as to why you charge 29 per cent on bananas?

An Hon. Member: To help the government.

Mr. Levine: Again, as you go down each item has a different mark-up and in order to take each of the 6,000 or 8,000 that you sell, to define each item, it would be a marketing lesson which would be very difficult for us to give at this point of time. Each item has its own history, each item has its own demand curve, each item has its own waste factor.

Mr. Olson: Let us take very recent history. You have 20.6 per cent in 1965, you have 29 per cent in 1966. Is there any reason for that?

Mr. Levine: Yes. We sell bananas sometimes at cost, sometimes at 5 per cent above cost and sometimes at 10 per cent above cost. It depends on the

supply of the item and the time of the year. Marketwise, we could have taken the item at the lowest price of any particular week and we could have taken them out and given that to you. We thought it more honourable to give you a typical week and that is what we did.

Mr. S. STEINBERG: We are at present selling bananas in Montreal at eight cents a pound and I am satisfied there is practically no margin. It depends on the quantity of supply available and the quantity available at a popular time. When you can feature it, there is no margin. At other times it is not nearly so bright and you get a better margin.

Mr. OLSON: The actual cost of merchandise on each new item really does not have much to do with how much you mark it up?

Mr. S. STEINBERG: It has to do with it in this sense. When you take the aggregate, you have to work it out, so that the average or mark-up will be somewhat higher than what it costs you to operate the business.

Mr. OLSON: I see, but I am puzzled about this. Why do you take only 15 per cent on grapes, which I presume are equal or perhaps even more perishable than bananas? You take 30 per cent, or almost twice as much, on bananas.

Mr. S. STEINBERG: The handling of bananas is entirely different from that of grapes. You get carloads and carloads of grapes but in the case of bananas some come in green, you need a banana room and facilities to handle bananas. There are a hundred and one things to do with the handling of bananas. Somtimes it lends itself to profit and sometimes it does not.

Mr. OLSON: Take another one and look at oranges. There you take 25.6 per cent and you take only 15 per cent on grapes. Is there some substantial difference?

Mr. S. STEINBERG: There most certainly is. When you operate a store—we will deal with the fruit department of the store. You employ quite a number of people, you allow a certain area of the store for the produce department, and that produce department must earn its ratio of its income to the total store. When commodities are in short supply, say oranges are really out of season, you can get a better margin to compensate for your operating costs.

Mr. OLSON: These mark-ups that you show at these tables, I think you just told me a few minutes ago, that they are averages that you have produced for this year.

Mr. S. STEINBERG: How do you mean? Grapes are not always sold at the same margin; oranges are not always sold at the same margin; bananas are not always sold at the same margin.

Mr. OLSON: That is not my point. Mr. Chairman. Mr. Steinberg, how is it that these tables that you gave show the average mark-up of 1964-65.

Several PEOPLE: No, no.

Mr. S. STEINBERG: We did not say that.

Co-Chairman Senator CROLL: One man asks the questions and one man answers, not three.

Mr. S. STEINBERG: We have here a selected group of items, retail price, in one particular week, and we use the same week in the three years shown. These are not in any way average. We have not shown the entire range we market. We have not shown all the goods featured here, we have shown selected items and the regular mark-up in the week we chose, the first week in January, for the three years in question.

Mr. OLSON: Taking in all these variables you mention, seasons and losses, can we get any rhyme or reason for the basis that you use for marking up, or is there any consistent basis for the marking up?

Mr. LEVINE: As to the consistency that you are talking about, we have a consistency. The president of our company sets the return on investment, at the beginning of each year, keeping in mind all the conditions. This is interpreted in sales and profit, and in all the 38 years he never yet has set it at the two per cent, it is always under that. Then we make a mark-up based on the ability to meet that profit projection and sales projection which the president has set.

Based on that, the marketing that one gets from grapes, when grapes are in season, to move the abundance of grapes, or when banana boats are coming in to New York or to Montreal and have to be moved, we use that. As for apples, MacIntosh apples in Quebec are high, and yet when you go to January or to February apples will not be 15 per cent, they may be 25 or 26 per cent.

January is the best month for oranges which come on to the market, for you then go down on your market price because you are getting volume and dollars, but when you cannot get volume or dollars you make 25 or 26 per cent, so you merchandize your store to the best ability that you have to give your customer the best values you can according to the season, so you come out right.

Mr. ALLMAND: Gentlemen, may I ask a supplementary question.

Co-Chairman Senator CROLL: Yes.

Mr. ALLMAND: Do you mean that when a certain product is in short supply that you take advantage of that?

Mr. LEVINE: No, we don't take advantage of it. What good would it be for you to have apples at a low price when there are no apples and have oranges at a low price when there are lots of apples? Your wife would like to buy the thing at the height of the season in order to get the best value. So when apples are coming off the tree we reduce the market to get the dollars, and when the product is not available you have nothing to sell. You want to help people avail themselves of the commodities.

Mr. ALLMAND: It is always in relation to the projection that you are making at the beginning of the year.

Mr. LEVINE: That is right, the total aggregate.

Mr. OLSON: In single items, the cost really is not the major factor in determining what your mark up is going to be, and it is not consistant, is it really, with all these other variables? They become equally important as the cost in the product varies to you.

Mr. LEVINE: Cost is always a main factor. In other words, if I bought something for 10¢ or 20¢, there is certainly a factor between one and the other. The basis of the goods is the factor of the price you pay.

Mr. OLSON: I will leave that for the moment, Mr. Chairman. I have one other area I would like to discuss for the moment if I may. Do you have with you prices that you paid for beef or pork at any given time in 1966, particularly during July and August?

Mr. LEVINE: No, we did not bring those figures with us because they were not on the questionnaire. We could supply this Committee with them if you so desire. We have them back at the office.

Co-Chairman Senator CROLL: That is not quite fair. What was sent to you was a guide for purposes of giving you some indication as to what we would talk about. But everyone else who was here before you brought those figures with them because they knew they would be discussed.

Mr. LEVINE: Then I apologize to you, Mr. Chairman. I have not got them, but I will furnish you with them.

Co-Chairman Senator CROLL: That will be satisfactory for the present.

Senator THORVALDSON: There were others who did not have certain figures but who agreed to send them along and the same thing should be done here. If they say they will send them, surely that should be sufficient.

Mr. OLSON: I am not demanding an answer now, Mr. Chairman, but I would like to know, so that we can make some comparisons. As you suggested, we might take the case history of a hog or a beef from the time it is sold in the public auction marts or livestock yards until it gets to the consumer.

I wonder if it would be possible for Mr. Steinberg to supply us with what he paid for pork loins and hinds of beef and sides of beef for July and August of 1966. I presume this information is readily available, as we already have this information from at least one or two of the other chain stores. We would like to compare this information with the others' for comparison purposes as to what happened in the last stock market and what you were required to pay for those items, so that we can then refer to D.B.S to see what you sold them for.

Mr. LEVINE: You want July '66 and August '66.

Mr. OLSON: Right.

Mr. LEVINE: We would be glad to do that. You want pork loins and sides of beef.

Mr. OLSON: Hinds and sides of beef.

Mr. LEVINE: All right.

Mr. SMITH (*Simcoe*): Each of the witnesses we have had before us, Mr. Steinberg, has pointed out the economy of private brands, and there has been some indication from some of the other companies, I think, that they use a smaller mark up when pricing private brands than they do when pricing nationally advertized brands in the same size and category. Is that true of the practice of your company?

Mr. LEVINE: No, we try to get the same mark up.

Mr. SMITH (*Simcoe*): You try to use the same percentage increase for each classification?

Mr. LEVINE: Whenever we can, yes.

Mr. SMITH (*Simcoe*): Whenever you can?

Mr. LEVINE: Yes.

Mr. SMITH (*Simcoe*): This is Mr. Saltsman's question, really, but he disappeared for a minute: there are two figures here in your retail price of grade A large eggs in January 1966. It was 37 at Loblaw's. This morning Dominion Stores showed the wholesale price for the same month in 1966 as $57\frac{1}{2}$. Is your figure based on purchasing only in the Montreal market perhaps?

Mr. LEVINE: Yes, this is the Quebec market of Grade A large eggs, yes.

Mr. SMITH (*Simcoe*): So that would account for that. I have just one other question on the next point. Advertising sales promotion expenses. I think you have made this clear, but there has been a misunderstanding with some of the other witnesses on this point. Advertising sales promotion revenue—does that means rebates and credits in cash from national advertisers towards your ads?

Mr. S. STEINBERG: I did not get that.

Mr. SMITH (*Simcoe*): I am sorry. On your advertising sales promotion figures there is an item "advertising sales promotion revenue." Does that include rebates and payments towards your advertising by national advertisers and promotion people.

Mr. S. STEINBERG: Towards the promotion and advertising, but not rebates. Perhaps you did not pose the question correctly. Anything the advertising man gives us in volume allowance comes off the net invoice. That is where you get margin net invoice. I think I took great care explaining that the margin is

without any add-ons, but when the advertiser spends money with us for promotional activity that is where that comes in.

Mr. SMITH (*Simcoe*): I should not have used the word rebate.

Mr. S. STEINBERG: Right. That is revenue for promotional advertising activities.

Mr. SMITH (*Simcoe*): Thank you.

Mr. McCUTCHEON: On Table No. 2 we started in to discuss a few minutes earlier the salaries and wages and store fringe benefits, etc. That is a very illuminating table. I wonder if it is a fair assumption, from just looking at it, that the increased cost of your operation has really just kept pace with our growth? In other words, I know you would not want to leave a wrong impression that your store salaries had gone up 167 and fringe benefits had gone up 155. Really, the net increase is far from that figure, is it not, due to the fact that you have gone from 132 to 157?

Mr. A. STEINBERG: The reason, Mr. McCutcheon, for putting the table in this form was so that you could use the same base year for purposes of sales and then the cost would be related to that. Our sales have gone up 40 per cent from a base of 100 to 140, an average of 6.7 per cent. This was an average increase on an annual basis. Using the same base 1961 as 100 our store salaries have gone up 67 per cent to 167.

They have gone up for two reasons. The fact that we have opened up new stores and the fact that we are paying higher wages for the same number of hours in 1965-66 as we did compared to 1960-61. So that it is a combination of the two things. Our store sales have gone up because we have opened up new stores and because many of the stores in which we operate are doing higher sales.

Mr. McCUTCHEON: Yes. In other words, what you are saying is that salaries and wages are not necessarily the principal causes of increased costs.

Mr. A. STEINBERG: They are important factors in our costs. You can see that there has been a substantial increase in this area.

Co-Chairman Senator CROLL: Occupancy is not doing too badly either at 160.

Mr. A. STEINBERG: This shows an increase, but it is not an absolute term.

Senator CARTER: May I ask a supplementary? In 1960-61 your total sales were 253 million as against 400 million in '65-66, which is roughly an increase of 60 per cent, and that compares pretty much with your increase in wages. It is practically in line, is it not, with your expansion of sales.

Mr. A. STEINBERG: Just for purposes of clarification, senator, the first table is for the entire corporation. It includes all of our operations. Table 2 is for the supermarket operations only. In order to see the comparison of the sales increase for the supermarket in the 6 years shown you have to stay on Table 2 and you will see that it has gone from an annual increase of 6.7 and that salaries have gone from 100 to 167 for an average annual increase of 11.2 per cent.

Senator McDONALD: I have one supplementary question. Is it not true to say that on the average your sales have increased by 6.7 per cent for the year, and to get that increase in sales your salaries and wages have increased not 6.7 but 11.2 for the year 1965-66.

Mr. LEVINE: Exactly. Correct.

Mr. McCUTCHEON: I know this has probably been asked before when I was not here, but I was interested in the type of advertising where you have a giant size package of detergent with 25 cents marked off. Do you subscribe to this type of advertising? Let us have your comment on it, please.

Mr. LEVINE: No, we do not. We try to persuade the suppliers not to use this "10 cents off" because it confuses our consumer and she does not fully understand what she is paying for the product. It is very difficult for us to understand sometimes the "10 cents off" in the store, but this is a method of promotion some suppliers use and when they put it on the market we buy it and take off the amount and sell it to the consumer, but we do not subscribe to it.

Mr. S. STEINBERG: This creates a lot of confusion because when we buy a product with a "10 cents off" label, when we price it on the shelf we put the price we are going to sell it at, and the customer comes to us and thinks she is entitled to another 10 cents off.

Mr. MCCUTCHEON: Is this thing legit?

Mr. S. STEINBERG: A retailer does not control or direct the policies of a manufacturer. If a manufacturer feels that by some promotional approach, say, by putting "10 cents off" on a label, that will pinpoint it to the customer and as a result of that he might enlarge his sales or his volume, anything we might say would be very unimportant to him. His main concern is to get volume on the product. If he thinks putting "10 cents off" or "25 cents off" on the label is helping him, he is going to do it as long as he thinks it is going to help him get more business. If all the chains got together and said, "We will not handle it if you do it that way," it would be a different matter, but we do not get together.

Mr. CHOQUETTE: I am very pleased you are answering the same question twice to the previous witness; it shows you understand French. I want to know, if you are against that, what are you specifically doing to fight such an attitude from the producer? Are you doing anything special, or do you just tolerate the fact

Mr. LEVINE: Every year we put out a little brochure, many of them to our suppliers, asking them to do certain merchandising aspects we know the consumer likes. Every year we put out a little brochure asking them not to use "10 cents off" or "25 cents off". One major company has already given up the use of "10 cents off" for six months, and we are hoping that because of their leadership other companies will follow in their footsteps.

Mr. CHOQUETTE: Have you only made a verbal complaint or have you ever made a written complaint?

Mr. LEVINE: A written complaint and a nice brochure.

Mr. CHOQUETTE: What kind of answer did they give you?

Mr. LEVINE: That they will look into it and do their merchandising.

Mr. CHOQUETTE: They will take it under active consideration?

Mr. LEVINE: Yes, that is right.

Co-Chairman Senator CROLL: Mr. Saltsman, is this supplementary?

Mr. SALTSMAN: A supplementary question, Mr. Chairman. In view of the fact you have given some thought to this problem on behalf of the consumer, could you make this booklet available to this committee, to act as a guide for this committee to examine? Could we see this booklet?

Mr. LEVINE: If I have a copy, I will; and we have four, five or six talks speaking to groups. We have spoken against "cents off", and we could send you that too.

Mr. A. STEINBERG: We will send all the material we have.

Co-Chairman Senator CROLL: I think Mr. Saltsman wants not just material on the subject, but what you said.

Mr. S. STEINBERG: This is what we have in mind.

Mr. McCUTCHEON: I gathered this morning through the witnesses we had, that in the case of meat, and particularly beef and bacon, the processors or packers had set a price on a "take-it-or-leave-it" basis, and the price currently is much higher than it had been earlier in the year, even when the producer prices were down. Therefore, my assumption was we had to look further than the supermarket operators. The inference to me is strong that in these instances the packers are to blame.

I am going back to what we were told at a previous meeting, and I am going to refer to tobacco, if I might. This is under, "Gross margin variations between commodity groups." You show 8.25 per cent margin of profit on tobacco. We have been told that a pound of flue cured tobacco costing the factory 70 cents—I think these figures are right, if I can remember them correctly—manufactures 310 cigarettes at a cost of $6.26, less $2.06, I believe it was, on federal and provincial taxes. In other words, boiling it all down, 70 cents-worth of product became $4.20, or a multiplication of six times. If you are only making 8.25 per cent on this tobacco, should I take the inference from this—having regard to what we heard this morning and this other information —that probably we should be looking to the tobacco factories and getting them in here pretty quick?

Mr. S. STEINBERG: Is that a question?

Co-Chairman Senator CROLL: Yes.

Mr. S. STEINBERG: As retailers, we do not know too much about the cigarette and tobacco manufacturing process.

Mr. McCUTCHEON: This is a pretty small margin you have here.

Mr. S. STEINBERG: You mean, in so far as we are concerned retailing?

Mr. McCUTCHEON: Yes.

Mr. S. STEINBERG: Traditionally, if we can earn 8 per cent on cigarettes or tobacco product we are very happy, and there is a tremendous volume on that. But what the manufacturer or processor of tobacco products makes, we have no idea at all. It is a very profitable item in so far as the retailer is concerned.

Mr. McCUTCHEON: How often does your association, if there is one, of supermarket operators get together and set prices for the retail level?

Mr. S. STEINBERG: Never, never.

Mr. A. STEINBERG: Such an organization does not exist.

Mr. S. STEINBERG: Mr. Chairman, a question was asked about these price off labels and what our attitude is. Let me say this, that to most large operators this is a tremendous headache because on their shelves in their stores or in their warehouse they have goods that have not the "10 cents off," and when they bring in fresh merchandise with "10 cents off" or anything else, they have a double rate on the merchandise, so we frown on it very much. If a manufacturer can, through the medium of advertising on television or elsewhere, promote that sale, if a customer comes in and she wants to get it and we have not got it, we lose the sale and we are not happy about it.

Co-Chairman Senator CROLL: Senator Thorvaldson?

Senator THORVALDSON: Mr. Chairman, I think the questions I had in mind have been fairly well covered.

Mr. SALTSMAN: On this question of assisting the consumer with doing some comparison price shopping, you have indicated how difficult it is, even for professionals like yourselves, with these "10 cents off" things to make a reasonable comparison in a short period of time. Have you considered the possibility of having the prices marked in so much per ounce, so the consumer can then make a valid comparison between the price of this product and the other product, because of the variation in package size?

Mr. S. STEINBERG: The problem in the large-scale operation such as our own with reference to the product sold is that we are very happy if we can get the clerks in the store to put the right price legibly and clearly on the container. Never mind making all these other comparisons.

Mr. SALTSMAN: Could a table not be worked out for the benefit of the people involved, so that you have a double stamp instead of a single stamp which indicates the price per ounce of that product, and once the decision has been made you can stamp a lot of boxes?

Mr. S. STEINBERG: It is difficult because the containers vary, the type of containers. Even with these things it is very difficult. There are the variables in terms of the package. In other words, not all manufactured products have a uniformity in size, so we would have to have some sort of gadget or machine for the package. But what we can stamp on the customer can see right on the package, and it is probably far more legible than we can stamp it on. The other thing is this: In all my experience as a merchant I have found that most customers know beforehand what they want to buy. They try out products to find one that suits them best, and then they know what it is. It is true, and rightly so, that they are quite disturbed about higher prices for food, but they go on buying what they like best.

Mr. SALTSMAN: Are you saying that the average housewife is not as price-conscious as we are led to believe?

Mr. S. STEINBERG: I did not say that, but I say that she continues to choose from the shelves what she likes best.

Mr. SALTSMAN: Do you think she can make an accurate price comparison now with the variety of boxes and packaging available? There are some at 4½ ounces for a certain price and others at 3 3/4 ounces for a certain price—do you say she is actually aware of what she is buying and can choose the best value in terms of price?

Mr. S. STEINBERG: I would think so, because we have been spending many thousands of dollars on promotion week after week, and if the people did not understand what we are doing we would be very poor merchants.

Co-Chairman Senator CROLL: This is a list taken at you store at 1944 St. Laurent Boulevard on October 7. There are 10 brands of detergents at different prices and different sizes:

5 lbs. 3½ oz.
5 lbs.
4 lbs. 6 oz.
4 lbs.
2 lbs. 12 oz.
2 lbs. 10 oz.
2 lbs. 7 oz.
1 lb. 5 oz.
1 lb. 4 oz.
1 lb. 2 oz.

And the brands are Ajax, Bold, Cheer, Fab, Omo, Oxydol, Rinso, Steinberg's, Surf and Tide, and different weights are given. Do you think the ordinary person who comes into the store can appreciate and assess all this?

Mr. S. STEINBERG: I don't think she starts out that way. She decides, based on testing out or trial, what she prefers. This may be as a result of the advertising or for some other reason. But she tries them out and she decides the product she likes best. So far as the chain store business is concerned, nobody dislikes that more than we do. Imagine having all these varieties and brands.

The only reason we put them on the shelf is because if the customer wants a particular brand and we do not have it she may go to a competing store. I should say that we keep records of the movement of goods, and the item that sells least we usually drop off. If we have four items on the shelf and one sells very little, then we strike it off our list. No inducement on the part of the manufacturer can get us to keep it on the shelf unless the customer picks it up.

Mr. LEVINE: We would be happy to have standard weights. It would be easier for us, for our inventories, and also for the customers. We do not subscribe to the weights you called out.

Mr. S. STEINBERG: We would appreciate very much that there should be some regulation governing weights and sizes. Before I go on I should say that when we put our own label on items we do not go into a multiplicity of sizes. We try to get one size or at the most two. We do not go in for three or four sizes.

Mr. SALTSMAN: You have just answered the question I was going to ask you. What suggestions would you have for a committee of this type or what recommendations would you make to bring about a standardization of sizes and weights?

Mr. S. STEINBERG: We would like to make a recommendation on the basis of the sizes that there should be standardization. As to what these sizes should be, well that is information that can be had from various sources. I would very much like to make such a recommendation.

Mr. SALTSMAN: Would you accept such a recommendation from him, Mr. Chairman?

Co-Chairman Senator CROLL: The record speaks for itself.

Mr. SALTSMAN: Do you rent out very much space on your shelves in your stores?

Mr. S. STEINBERG: Never.

Mr. SALTSMAN: Do you have any comment to make on the practice?

Mr. S. STEINBERG: As retailers the sources of supply are very important to us. We have to have good sources of supply, but our profits should be determined by what we sell and not by renting out space to manufacturers. We want to sell what interests our customers and if we have a product the sale of which is below the average volume, it goes out of the store.

Mr. SALTSMAN: Are you saying it is a bad practice?

Mr. STEINBERG: We have never done it. If it were a good practice we would probably be doing it.

Mr. SALTSMAN: That is as close as we will get to an answer on that?

Mr. S. STEINBERG: It is not fair for me to comment on what others may do.

Mr. SALTSMAN: I would like to direct your attention to page 6 of your brief. You refer to the opening of stores. On what basis do you decide to open up a store in a new area? What factors influence you in opening up a new store?

Mr. S. STEINBERG: When our people go out from the research department they project on the basis of existing population and they translate these figures into terms of penetration and then determine what the prospects are. From that we can determine from our experience how much volume we can do. Then we have three sizes of stores; we used to have four but now we have three, Nos. 2, 3 and 4 stores. If the volume does not justify a No. 2 store we won't go in.

Mr. SALTSMAN: In your experience are the numbers of stores serving the population of Canada as a ratio increasing or decreasing? Are there more stores per population or less?

Mr. S. STEINBERG: The trend has been more stores right along. If we go back through the years we see that at one time a supermarket would draw from a radius of two miles. Today that radius is one mile.

Mr. SALTSMAN: Has this any effect on consumer prices?

Mr. S. STEINBERG: Very little. Our experience has been that the average of our sales speaks for itself. Our average sales are more than $2 million per store which is a good volume.

Co-Chairman Senator CROLL: I have Mr. Choquette and Senator O'Leary and Senator Deschatelets, and I must leave time for Mr. Urie.

Mr. CHOQUETTE: May I start with a preliminary statement? To me the commercial advertising as it is conceived today is one important cause of poverty. That may sound strange that I say that, but I strongly believe it. I'll ask my questions in French because first of all you have shown us a French copy of the brief on which I wish to commend you.

M. CHOQUETTE: Je voudrais vous demander: est-ce que quelque part dans votre mémoire figure en dollars, le montant de la publicité?

M. Arnold STEINBERG: Nous avons un tableau sans numéro, avec nos chiffres de publicité.

M. CHOQUETTE: En pourcentage?

M. A. STEINBERG: En pourcentage.

M. CHOQUETTE: En dollars, ce n'est pas exprimé?

M. A. STEINBERG: Non. Nous avons aussi nos ventes, au premier tableau, 2.8 pour 100 des ventes.

M. Sam STEINBERG: Un instant. I'll speak in English, if you do not mind.

Mr. CHOQUETTE: I speak bad English, but I understand it well.

Mr. S. STEINBERG: Our advertising and sales promotion expense, for 1965/66, amounted to 2.81 per cent. We also indicated that we received a revenue from suppliers in respect of promotional activities of 1.14 per cent, which left us with a net expense of 1.67, but actually this does not cost our company anything because good promotion is self-liquidating. We translate this 1.67 per cent—we give the customer, as you know, these Pinky Stamps, for which she receives premiums. In relation to our sales the value of these Pinky stamps is considered to be 2 per cent, so actually our advertising does not cost our company anything when we translate that into the fact that the customer receives a premium.

M. CHOQUETTE: Est-ce qu'il est possible que votre Compagnie ait des intérêts substantiels, disons, dans des compagnies de publicité, ou dans une compagnie de publicité?

M. Sam STEINBERG: Pas du tout. Aucune. Avez-vous compris ce que j'ai dit? Il ne nous coûte rien pour «La publicité». Now, some people strongly believe that advertising and promotional activities cost money, but actually they do not. In a mass merchandising device like Steinberg's the costliest thing for us is to open our doors and do no business. No matter whether you make 4 per cent or 8 per cent on an item, it is how often you turn over that item that matters. In a modern supermarket the customer does her own selection, and in order to have her do that effectively you have got to promote, and it does not matter whether you do it by way of stamps or any other way.

I will put it in another way. I had our people check up, and I have a note here that in 1954/55 we had a net expense for promotional advertising of 1.85 per cent. In that period we used to give the customer premiums to come in early in the week, and the combination of that advertising and the promotional activities cost us 1.85 per cent. In 1955/56 it went down to 1.79 per cent. In 1956/57 it was 1.57 per cent, and in 1957/58 it was 1.73 per cent. But, at all

times we gave the customer a premium, whether it was dishes or something else. She saved the cash register tapes and she got something for them, whatever it was. Ever since we have been in business we have always promoted.

M. CHOQUETTE: Est-ce qu'on vous a informé qu'un membre du Parlement a présenté un bill qui fut adopté en première lecture, pour l'abolition des timbres-primes?

M. Sam STEINBERG: Oui.

M. CHOQUETTE: Est-ce que ça vous a bien attristé?

M. Sam STEINBERG: Certainement. Ce n'est pas à mon goût.

M. CHOQUETTE: Vous avez pris la précaution de préciser, quelque part dans votre mémoire,—je ne trouve pas l'endroit exact,—que vous n'exercez aucun contrôle sur les compagnies qui représentent, pour vous, vos fournisseurs?

M. S. STEINBERG: Oui.

M. CHOQUETTE: Lorsque vous dites que vous n'exercez aucun contrôle, est-ce que, quand même, il y a dans ces compagnies qui sont vos fournisseurs, des actionnaires importants de Steinberg?

Mr. A. STEINBERG: None, to our knowledge.

M. CHOQUETTE: A votre connaissance?

Mr. A. STEINBERG: None to our knowledge. The other thing, of course, is that there are no voting shares of Steinberg's Limited in the hands of the public. All of them are held by members of the Steinberg family.

Mr. S. STEINBERG: So, nobody can influence our business.

Earlier on somebody mentioned the fact that we had a picture of the President of Safeway Stores, Mr. Magowan. This is a photostat of the front page of *Chain Store Age,* September, 1966 issue. Here Mr. Magowan makes the statement:

> Our sales increase would have been only 5 per cent or 6 per cent without 'Bonus Bingo'...with our games, sales are up 11 per cent and earnings up 29 per cent.

In other words, I think the Safeway Stores do something like $2.5 billion worth of business a year. Mr. Magowan thinks that these sales promotions or gimmicks, or whatever you choose to call them, have been very helpful in promoting sales in his business, and making him a lot of money.

I know that you have had somebody here speaking on behalf of one of the larger chain organizations—in fact, they are the largest in the world, doing something like $5.5 billion worth of business a year. They indicated that they do not believe in stamps or promotions, but I have a photostatic copy here of something that appeared in *Supermarket News* of March 25, 1963 in which there is an announcement that they are going to distribute some 23 billion stamps, and that they are also going to run some promotions, such as a hidden treasure game offering all kinds of prizes. I would like to say this before you pass any legislation against stamps, that in the supermarket industry there were people who favoured stamps and those who were against stamps. I am talking about the United States now. While visiting conventions down there I get to speak to a group of fellows who have heard of some people who, on introducing stamps in their stores, have made a tremendous increase in their volume. They are perplexed as to what to do in their own chain and they ask their friends: "What do you think?". I have always recommended that you follow what is in fashion, and if people want stamps then you give them stamps.

Plenty of people have refrained. Let me tell you this, that I have a document here with respect to the First National Stores. The First National Stores, when stamps came into fashion, refrained from using them for some five

years. They were one of the foremost, strongest and best supermarket operators in the New England area, and their profits went down from $8 million to $2 million. Just recently, according to the last issue of *Supermarket News*, they have had to call in somebody to take over the running of the company because they were having such a hard time.

This is true of many companies which have refrained from going into stamps. Many of them who did not get on to the band wagon right away are out of business today. In other words, if stamps are in fashion then you had better be in style yourself.

Co-Chairman Senator CROLL: Are you finished, Mr. Choquette?

Mr. CHOQUETTE: Yes, Mr. Chairman.

Senator McDONALD: May I say something about what Mr. Steinberg has said? I come from an area in which stamps are outlawed. If your competitors are not able to give stamps, and your company is not able to give stamps, then are you not all even, and the person who prospers is the customer? You said they cost 2 per cent.

Mr. S. STEINBERG: I said they do not cost us anything. You do not give a stamp until you make a sale. It reduces the volume in your store, and it reduces the cost to the customer. Good promotion is self-liquidating.

But, I go back to the time when there were no stamps. Prior to stamps we used to give all sorts of premiums, whether they were dishes or motor car. We always promoted, and with stamps it costs us less today in relation to sales—in fact, it costs us nothing today. In the final analysis you have to ask yourself whether you can compete and still give stamps.

Mr. CHOQUETTE: According to your statistical record, what is the percentage of those stamps that are not being used? Have you any record of that?

Mr. LEVINE: Our redemption is 100 per cent.

Mr. CHOQUETTE: They are all used?

Mr. LEVINE: We give away 100 per cent. We never know how much has been used until we quit.

Mr. DOYLE: For tax purposes, the income tax people recognize a redemption of 95 per cent. This does prove something because they have taken a very good look at the amount of redemptions that have been effected over the years during which the stamp plans have been in existence.

Mr. CHOQUETTE: One last thing—

Mr. S. STEINBERG: Before you go on, we do redeem 95 per cent, but you never know how many are left in the hands of the consumer.

Mr. CHOQUETTE: Yes, because it is a fact that many of them do not use them.

Mr. S. STEINBERG: Not too many.

Mr. CHOQUETTE: The last thing, Mr. Chairman. I want to congratulate you as energetically as possible because you are against that policy of the 29 or 25 cents off. I want to use that as an argument later. Could you tell me what company decided to get rid of such a policy? You mentioned a few moments ago a company wanted to get rid of it.

Mr. S. STEINBERG: General Foods.

Senator O'LEARY (*Antigonish-Guysborough*): Mr. Chairman, I believe Mr. Steinberg said that one of his representatives told him today that last Tranksgiving weekend—and I quote, "You could not cope with the volume in your stores." Is that correct?

Mr. S. Steinberg: I said this morning that Mr. Gagnier, Ottawa zone manager, said in the early part of the week business was slow but that at the weekend—I am talking about this past weekend.

Senator O'Leary (*Antigonish-Guysborough*): All right, this past weekend. This would not be a fair question, I suppose, but would this mean that it was an increase over a year ago for the same weekend? You would not recall that now?

Mr. S. Steinberg: Oh, yes, sure.

Mr. A. Steinberg: The first part of the week had been slow, and the latter part exceedingly busy. You have to put in the contest of the question that was asked.

Senator O'Leary (*Antigonish-Guysborough*): I am speaking of the latter part of the question about this dollar increase, absolute or otherwise, that weekend, and I wondered how it compared with a year ago last week.

Mr. S. Steinberg: Substantially higher.

Senator O'Leary (*Antigonish-Guysborough*): My final question is, what effect, if any, do you think that the Ottawa consumers boycott group have had in so far as Steinberg stores are concerned.

Mr. S. Steinberg: I can only go by the results achieved in our stores.

Senator O'Leary (*Antigonish-Guysborough*): Thank you.

Co-Chairman Senator Croll: Mr. Matte?

M. Matte: Je voudrais savoir quel est votre inventaire sur lequel vous faites des profits de 600 millions, 700 mille dollars. Je voudrais savoir quel est votre inventaire—vos investissements?

M. A. Steinberg: Sur la marchandise?

M. Matte: Oui.

M. A. Steinberg: Un instant, s'il vous plaît. Nous avons seulement pour les magasins à rayons et les magasins alimentaires. C'est 31 millions.

M. Matte: 31 millions d'inventaire.

M. A. Steinberg: Oui.

M. Matte: Maintenant, ici, est-ce que vos pourcentages sont calculés, dans votre rapport, sur le prix de vente, ou sur le prix d'achat?

M. A. Steinberg: Sur le prix de vente—toujours.

M. Matte: Toujours sur le prix de vente?

M. A. Steinberg: Oui.

M. Matte: C'est plus haut que le prix d'achat?

M. A. Steinberg: Oui.

M. Matte: Croyez-vous, aussi, qu'une loi devrait obliger à vendre tous les produits avec la même pesée, le même galonnage, soit $\frac{1}{2}$ de livre, $\frac{1}{4}$ de livre, une livre, car souvent on aura des paquets de 14 onces ou de 12 onces, ce qui peut tromper l'acheteur?

Mr. Levine: We would like to have standard weights in our stores, because we do feel, like you feel, that it would be convenient for goods to be sold at two ounces, four ounces. One would rather have standard weights in the store, yes. We cannot control the companies who produce the goods, but we would rather have it that way.

M. Matte: Ce qui arrive souvent, un client va acheter des biscuits, il pense avoir 16 onces, mais a moins qu'une livre, et souvent c'est trompeur?

Mr. LEVINE: When we have our own biscuits packed for us we always go to 16 ounces or 24 ounces rather than two or ten ounces on the market. We would prefer to have them half pounds and pounds.

M. MATTE: Seriez-vous en faveur de l'adoption du système métrique?

Mr. LEVINE: Right.

Mr. WHELAN: One supplementary question. You said you contracted for all your soap flakes.

Mr. S. STEINBERG: When we buy private label it is under contract.

Mr. WHELAN: But do you make sure they are standard weights?

Mr. LEVINE: No, because we have to be competitive on our shelves with the brands we sell, but we would prefer to do it the other way.

Co-Chairman Senator CROLL: Senator Deschatelets?

Senator DESCHATELETS: My question has to do with potatoes. The primary producer claims that he is receiving too little. On the other hand the consumer claims the producer is receiving too much. You are in the middle. Having said that, I would like to know if there is any intermediary between your company and the primary producer for your vegetables in Quebec.

Mr. LEVINE: No, we buy direct from the farmer or the co-op.

Senator DESCHATELETS: Is there in your organization any company which would act as wholesaler?

Mr. LEVINE: No, in our company we do not have any intermediary mark-up. We buy from the source, which is the farmer or the co-op—that is our cost, and we sell it at our retail. There is no intermediary between.

Senator DESCHATELETS: A few weeks ago one of the most important potato growers in Quebec told me that at the farm he was selling a bag of potatoes—I do not know if it was a 25 pound bag or a 50-pound bag, at 55 cents a bag. He claims that at the market in Montreal the same bag was selling for $1.55. So how can we explain this difference of one dollar between the primary producer and the retailer?

Mr. LEVINE: I don't know. I know for a fact that we have not paid 55 cents a bag. It is much higher than that. I have not the prices with me, but I know that in arranging terms we have paid from 80 cents, 85 cents, 90 cents and $1.

Senator DESCHATELETS: Well, that was just a few days before the election in Nicolet-Yamaska probably around September 15.

Mr. LEVINE: We do not buy from that area, so I cannot tell you the price there.

Senator DESCHATELETS: As you are aware, most private retailers in Montreal are buying from wholesalers or from intermediaries. The price they are selling their potatoes for, for example, is approximately the same price as you are selling yours, and they are paying for intermediaries or through the wholesaler. Now, I am just wondering if buying without an intermediary by carload, because you are buying by carloads, you are not taking much more profit than you otherwise would.

Mr. Natham Steinberg, Senior Vice-President, Steinberg's Limited: When we talk about the local potatoes direct from the farmer, there is a market, and every independent can go to that market. The greatest majority go to that market and they possibly find very little difference from what we pay. Possibly we have it delivered to our warehouse and they pick it up from there. It is only when they start to move it outside from the Province of Quebec they go to an intermediary; otherwise, most of them buy in the market.

Mr. S. STEINBERG: When you speak of the differential of the dollars, you never make a dollar on a bag of potatoes.

Senator DESCHATELETS: I understand that to any client who comes into your store, whether he buys something or not, you are now delivering a coupon for a race track show on Sunday. Would you have any objection to telling us how much money you are distributing on this program, each week?

Mr. LEVINE: It varies from $10,000 to $14,000 a week.

Mr. WHELAN: He says he did not make a dollar on a bag of potatoes and I want to know what the size of that bag is. This year potatoes have been at the lowest level in 15 years. Farmers have been sending in bags of 75 pounds of potatoes and after paying 30 cents for the bag they did not receive 90 cents, whereas in most stores the potatoes are selling at 79 cents for 10 pounds. I know it is $1.50 in Toronto for 75 pounds.

Co-Chairman Senator CROLL: Have you any comment on that, Mr. Levine?

Mr. LEVINE: I should repeat your question first. You say potatoes are selling at 78 cents?

Mr. WHELAN: In many of the stores in the City of Toronto they are selling 75-pound bags for $1.50 and they are going out to consumers in the chain stores at 79 cents for 10 pounds.

Mr. LEVINE: We have figures here. What you say is not correct in our stores. We have been selling potatoes, for the week ended October 9, in the year 1964 that cost us 75 cents, selling at 79 cents; in the year 1965, the cost was $1, selling at $1.29; and in the year 1966, that cost 85 cents, selling at 89 cents. They are all Quebec potatoes in 50-pound bags and they are all for October 9 of each year that we are talking about. We have never sold potatoes that would make ten times the difference.

Mr. WHELAN: It would amount to a 70 per cent mark-up, and this is what happened this year.

Mr. OLSON: This 4.5 per cent mark-up that you talk about, does that take into account the shrinkage or is it the gross?

Mr. LEVINE: It is gross, always gross.

Mr. S. STEINBERG: I would like to answer this business about the $14,000. This $14,000 is not a net cost to the company. When we run a promotion, we have manufacturers who contribute towards that promotion and it is out of that money that we obtain from the manufacturers who join with us on promotion, that we expend this money; so the net cost to the company is not $14,000.

Mr. MCLELLAND: Do most of your suppliers or manufacturers give you a percentage bonus incentive at the end of a year, based on the amount of volume with your store?

Mr. S. STEINBERG: Sure. Some have a list price, the list price gives you an indication as to what allowances might be given, but that is taken off when we buy and when we indicate a price, we talk net price.

Mr. MCLELLAND: Would you care to give an indication of what the highest price might be?

Mr. S. STEINBERG: They do not come as what you call a bonus. If a manufacturer has a system under which he gives allowances, whenever he gives that allowance it is deducted from the invoiced cost and your mark-up is made from the net cost, to what the consumer pays. I think I have gone right through that from the beginning. We do not get extra revenue in terms of allowances. We may get extra moneys from promotion and activities. If you buy anything at a dollar discount, or whatever it is, it is taken off the invoice to give a net price.

Mr. MCCUTCHEON: As to this $14,000 that is shared between you and the manufacturer, you say it is not net cost to the store?

Mr. S. STEINBERG: No.

Mr. MCCUTCHEON: Is it fair to say it is a net cost to the ultimate consumer?

Mr. S. STEINBERG: You are going back to this business of what brings people into the store. When you run this kind of promotion, like "Let us go to the races," you really relate it to how much extra business this promotion will generate and what that means in profit related to the cost of the promotion. Our experience has always been that promotions, if they are any good, liquidate the cost, so it does not cost the consumer anything, neither does it cost us anything.

Co-Chairman Senator CROLL: If it does not cost the customer anything, who pays the cost?

Mr. WHELAN: The primary producer.

Mr. S. STEINBERG: It costs money to do business and if you do more business because of a promotion you have to liquidate that cost against the added business that you do.

Co-Chairman Senator CROLL: Who pays the cost of the promotion?

Mr. S. STEINBERG: I have just explained it to you.

Co-Chairman Senator CROLL: Somebody is paying for that promotion. Who is it?

Mr. S. STEINBERG: It is the additional business that you do, which you do at a profit, and from that you deduct it, so the extra business that you do should liquidate the cost of the promotion.

Co-Chairman Senator CROLL: But the extra cost that you do with the consumer provides you with the profits and in the end the consumer pays for that.

Mr. S. STEINBERG: But if we did not do this promotion, what else would we have to do to get that business?

Senator DESCHATELETS: In fact, do your figures show there was a real increase in the volume of sales since the start of this "Go to the Races"?

Mr. S. STEINBERG: Very definitely.

Mr. LEVINE: I have the price of potatoes for the week ended October 9, for the same week in each year for 1964-65 and 1966. This relates to Quebec potatoes. In 1964, we bought at 75 cents and sold at 79; in 1965 they cost us $1 and we sold at $1.29; in 1966, this year, October 9 we bought at 85 cents and we sold at 89 cents.

Mr. WHELAN: I am not talking about this but July, August and September when there was an embargo on American potatoes so as to prevent the country from going bankrupt.

Co-Chairman Senator CROLL: This man does not know as much about potatoes as you do, so do not get involved in it with him. It is an uneven match.

Mr. S. STEINBERG: We were talking about the scheme "Let Us Go the Races" and I quoted figures of 2.81, which means advertising and promotional cost, and I said it ended up with a net of 167. In that case, where there is an increase in our sales volume, there is no cost.

Co-Chairman Senator CROLL: Our comparative shopper came across some orange juice which was bought from Steinbergs, 20 fluid ounces and 19 fluid ounces, purchased on the same day, five for $1. How do you explain that?

Mr. LEVINE: I wonder if you are aware that last year the Government changed the rules and regulations in regard to the tins. Where we used to put 20 ounces on the tin of juice, they changed the regulation to make it 19 ounces. So that store may have had some of them; together with tins having the old label which is still used, until the label stock is depleted. Our labels were

altered from 20 ounces to 19 ounces by Government regulation, but the tin is exactly the same. This is a new Government regulation that came out last year.

Mr. ALLMAND: Based on a letter from a constituent who also shops in your stores, this exemplifies the problem to the consumer. This consumer decided to buy the same order in consecutive weeks, on the same day, from the same Steinberg store. In the first week, it cost $23.40, in the second week $27.40 and in the third week $32.47. These were the same items in the same store, on the same day of the week. She is wondering how there should be such difference in such a small period of three weeks, taken either side of the point where the prices go up, on a total order of $23.40 to $32.47 in three weeks. These goods which were bought were the common basket goods that a consumer would buy in a grocery store. We have heard these briefs and have heard farmers about this.

Mr. S. STEINBERG: That is not at all possible.

Mr. ALLMAND: You do not think that is possible?

Mr. S. STEINBERG: It is not possible and I would suggest that someone who knew a little arithmetic deal with it.

Mr. ALLMAND: She says she has got the slips.

Mr. S. STEINBERG: But you have not go the items.

Mr. ALLMAND: She says she has got Steinbergs slips.

Senator MCDONALD: You are not in the business of packing, you process. How do you buy your beef?

Mr. S. STEINBERG: In carloads.

Senator MCDONALD: How do you buy pork?

Mr. S. STEINBERG: By the cuts.

Senator MCDONALD: Where do you buy bacon?

Mr. S. STEINBERG: We get Swift's or Canada Packers and so on.

Senator MCDONALD: Do you buy all of it in Canada?

Mr. S. STEINBERG: Yes.

Senator MCDONALD: You do not import any bacon?

Mr. S. STEINBERG: We do not import bacon from the United States.

Mr. URIE: I have just a few questions, Mr. Chairman.

Co-Chairman Senator CROLL: Go ahead.

Mr. URIE: What is your inventory policy, Mr. Steinberg, in respect of inventories at hand when your new stock comes in at higher prices?

Mr. S. STEINBERG: What do you mean?

Mr. URIE: The prices of the inventories you have on hand.

Mr. S. STEINBERG: I think every supermarket operator or chain store operator likes to have enough goods on hand so that he can be the last one to raise his prices. I think the most important thing to any chain operator is to retain the goodwill of his customers. We are always hopeful to have enough goods to outlast our competitors at the low prices. I am satisfied that all chains try to do the same thing.

Mr. URIE: There were some gentlemen here from one of your competitors this morning and it was pointed out to them that a lady reported to this committee a purchase which she had made of a can upon which there were four different prices marked. Now, they were horrified, and I think quite properly so, that this took place. Is it possible that this can take place in your organization?

Mr. S. STEINBERG: Yes, of course this could take place in any organization. The turnover in the supermarket business, at least in our warehouse that runs now, is 14 days, I think.

Mr. URIE: How many days?

Mr. S. STEINBERG: Fourteen days is the complete turnover. In the stores it should be about two or three times that, depending upon how they order. Most stock turns over a 2½ times. So, if there is a commodity which has been in that store where the price could have changed so many times, it is poor management within that store.

Mr. URIE: I would think so, but it is possible?

Mr. S. STEINBERG: Well, everything is possible.

Mr. OLSON: Perhaps there is not enough promotion.

Mr. S. STEINBERG: A thing like that sometimes can happen on a certain item.

Mr. URIE: Are there substantial differences between your chain stores between cities, that is, from city to city? Let us say between Montreal prices and Ottawa prices, for example.

Mr. S. STEINBERG: Substantial differences?

Mr. URIE: Yes.

Mr. S. STEINBERG: Well, I will tell you that usually, because Ottawa is so close to Montreal, we do not put on a delivery transport charge to Ottawa. However, when we go out of town for substantial distances, then freight charges are heavy and we add the freight charges. I think often times our prices are not high enough to redeem the full freight costs.

Mr. URIE: In other words, you say from Ottawa to Montreal is a short distance and so there is no transport differential.

Mr. LEVINE: But it is different for the Seven Islands, for instance.

Mr. URIE: Are there any other differences? The reason I ask is that it was reported to this committee several days ago that in 10 cities in Ontario on 26 selected items there were differences ranging up to 8 per cent. Most were 8 per cent higher than the prices for the same goods in Toronto. Now, I realize that unless we knew precisely the goods and so on it might be difficult for you to answer that question.

Mr. S. STEINBERG: Yes, it would be difficult.

Mr. URIE: If we were to provide you with that list, would you be able to make a comment after that?

Mr. S. STEINBERG: We would welcome the opportunity to look at it, sure.

Mr. URIE: In other words, we are interested in geographical spreads in prices.

Mr. S. STEINBERG: We would supply all the information that might be helpful, transportation and what not, you know.

Mr. URIE: I think most of the other questions I had to ask have already been asked, Mr. Chairman, but perhaps you could pass this form on to Mr. Steinberg.

Co-Chairman Senator CROLL: We would like you to complete a form for the same commodities in the same way as this one is completed.

Mr. S. STEINBERG: All right.

Co-Chairman Senator CROLL: Now, the other information is contained in their brief.

Now, Mr. Urie was shorter than I thought he would be, but we had to get that on the record.

Mr. JOYAL: We discussed previously the spread in prices between your own house brands and nationally advertised brands. Now, in the following list of selected products where you carry national brands, namely detergents and

soaps, cigarettes, baby foods, cereals, coffee and prepared meats, including bacon, could we obtain from you at a later date the list of your suppliers for each of the national brands which you carry for each of those commodities?

Mr. S. STEINBERG: Surely.

Mr. A. STEINBERG: Do you want the commodities you have just listed?

Mr. LEVINE: Shall we take them down now?

Co-Chairman Senator CROLL: No, we will write to you and let you know.

Mr. URIE: I just had one question to ask about private labels. The comparative prices you have given between your own private labels and the others, the branded lines, are they for comparative qualities?

Mr. S. STEINBERG: Absolutely.

Mr. LEFEBVRE: This has to do with your division called Miracle Mart. Did you say a while ago that you could not tell us the difference between your profit on the Miracle Mart division and your Steinberg supermarkets? You did not have this divided?

Mr. S. STEINBERG: The reason for that is that there is so much integration in our organization that it would be very costly to start analyzing it.

Mr. LEFEBVRE: You have no idea at all? You just know your total profit picture and not the difference between what you make in your Miracle Marts and your Steinberg markets?

Mr. S. STEINBERG: The point is that when you want net profit you have to break down every operation, and since so many of the operations are integrated it would be very costly, and that is why we do not do it.

Mr. LEFEBVRE: Just one other question on Miracle Marts—

Mr. S. STEINBERG: May I answer a previous question? We were just talking about private labels, and I would like to answer the question on that because it is such an important part of the industry. I want to say that a great number of the items that we sell under our own private labels are prepared for us by the manufacturers of the nationally advertised brands. They make them for us.

Mr. URIE: Yes, I think that was stated to us earlier.

Mr. LEFEBVRE: If a consumer goes into one of your Miracle Mart stores and buys $100-worth of goods, and will repay within 30 days, you advertise that there are no interest or credit charges. Is that correct?

Mr. S. STEINBERG: We do not. No, we do not.

Mr. LEFEBVRE: Well, how is the Credico company involved with you on this? Do they handle your store?

Mr. S. STEINBERG: The Credico Company not only service us but are free to service all the competing stores, whether department stores or otherwise.

Mr. LEFEBVRE: Well, on the $100 that this company would handle, how much would be deducted from the $100 and given back to you?

Mr. S. STEINBERG: Nothing would be given back to us. We pay them a service charge for servicing these accounts. They charge us.

Mr. LEFEBVRE: That is what I mean. Out of the $100 account they deduct so much.

Mr. S. STEINBERG: They charge that not to the customer but to us.

Co-Chairman Senator CROLL: That is what he is saying.

Mr. S. STEINBERG: Oh. They probably have a scale and they may charge us less because of the volume that we do with them as against smaller accounts.

Mr. LEFEBVRE: Would it be anywhere near 6 per cent?

Mr. S. STEINBERG: Six per cent?

Mr. LEFEBVRE: I am talking about $6 on $100 for 30 days.

Mr. S. STEINBERG: It would be very substantially less than that. It would be a lot less than half.

Mr. LEFEBVRE: How much less than half?

Mr. S. STEINBERG: You see, the point is that they are servicing other accounts and I do not know who they service or what the volume might be. It might prove very embarrassing to them, not to us, to disclose the fact—

Mr. LEFEBVRE: You are not willing to tell us how much they are charging you. Is that it?

Mr. S. STEINBERG: I am quite willing to tell you, but I am trying to point out that they service accounts that give them large volume, small volume, starting with us all the way down. I think originally when they started with us they only charged us one per cent. It might be a little higher today.

Mr. LEFEBVRE: You mean $1 on $100 for 30 days?

Mr. S. STEINBERG: They charged us $1. I am talking about when we first started. It might have been a couple of years ago. Today it might be 2 percent. I do not know right offhand what it is today.

Mr. LEFEBVRE: When you say 2 per cent, do you means $2 on $100 for 30 days, which would be quite a bit more than 2 per cent on a yearly basis?

Mr. A. STEINBERG: All of the quotation figures are based on annual charges. When we talk $2 on 100, that is on an annual basis. You would take one-twelfth of $2. It is a "without recourse" type of operation.

Mr. LEFEBVRE: Fine. Some people were worried that they were charging $2 or $3 or $4 or up to $6 on $100 for 30 days.

Mr. S. STEINBERG: I do not know what they do on other accounts.

Mr. LEFEBVRE: You say it is 2 per cent figured on a yearly basis?

Mr. LEVINE: There are two questions there. You asked Mr. Steinberg what they charge us. Are you now quoting what they charge the customer?

Mr. LEFEBVRE: Well, the customer is you. You say the customer does not pay it.

Mr. LEVINE: I did not say that.

Mr. S. STEINBERG: I did not say that. I said this: If you came into our store and you wanted to buy $100 worth of goods in the department store, in the Miracle Mart, on credit, we would then call the Credico people. They pay us the cash right away so that instead of giving us $100 they would give us $98, if it is 2 per cent. We have no more to do with it then.

Mr. LEFEBVRE: That is quite a bit more than 2 per cent. It is $2 on $100. It is $2 on $100 in 10 days—that is 24 per cent.

Mr. S. STEINBERG: It could be, but the point is this, and this seems to be confusing the minds of some people, if you go into our store and buy $100 worth of goods we call these people to establish that they are responsible for the money, and they give us $98. We have nothing more to do with it. We have no responsibility if you pay them or not. It is one sale and it is finis. I am not definite as to the 2 per cent.

Mr. LEFEBVRE: Well, it is 24 per cent. Then the next man in line pays cash. Does he gets the goods for $98?

Mr. S. STEINBERG: No, the individual person purchasing pays whatever the price is. If we were to set up our own charge account system at this stage in Miracle Mart, the operation could not afford it. We would not have enough business on credit accounts to set up a whole accounting system with the administration and everything else required. At this stage this is the most practical way of doing it. If a customer comes in to buy $100 worth of

goods—and that might be 2 or 3 per cent of our volume—it is meaningless to us. But we do the business with them and we pay the services to Credico.

Mr. LEFEBVRE: You get a percentage back on the amount of the accounts when you deal with this company?

Mr. S. STEINBERG: Not at all.

Mr. LEFEBVRE: No kickbacks?

Mr. S. STEINBERG: No.

Co-Chairman Senator CROLL: Mr. Steinberg, in the course of our discussions with you and with others, it has been made clear that there has been an increase in the price of food. The Deputy Minister of Labour in indicating the trends told us that the farmer was not receiving as large a portion as he formerly did. He indicated that labour was merely holding its own and taking no greater slice of the pie. Who, in your view, is taking the greater slice of the pie or where should we go to find a solution for the ills troubling this country at the present time in this particular aspect?

Mr. S. STEINBERG: I think you have to look at the whole gamut from the primary producer to the retail store. You have to look at every segment of the operation.

Co-Chairman Senator CROLL: Yes, but the figures given to us by the deputy minister and by the Department of Agriculture indicated that the primary producer was receiving less, as a matter of fact, of the total than he did in other years.

Mr. S. STEINBERG: We deal with the primary producers in many areas of production. I can only say that those we deal with directly are very happy. Many years ago we started to deal with the primary producers in poultry. Prior to that he shipped his poultry produce to packinghouses and jobbers. He would ship in his crates of 30 dozen eggs and they would be graded at the packinghouses or the jobbers and they would send him the appropriate price depending on how it had graded out. The producer had no control over the end product. But those who deal with us do their own grading and shipping and the prices are quoted in the paper and so they know what we are paying on that basis. But these people are not dealing with the primary producer in all areas. If he deals with packinghouses or processors or canners—that is not our field.

Co-Chairman Senator CROLL: But surely this matter must have given you some reason for thought and some concern generally, particularly since the food people have been accused of taking an undue profit. I am not saying they did, but surely you must have looked around to see where the higher prices went?

Mr. S. STEINBERG: I was trying to point out that the primary producers themselves are doing very little in the way of processing or changing the character of food. We have made a submission to the provincial government as to what the primary producer can do in this area. We have given them a 78-page report on that. We have made a complete study as to what they can do because there are many areas where primary producers can do a lot of processing or semi-processing.

Co-Chairman Senator CROLL: I thank you very much for the valuable information you have given us today. You will, of course, have to come back again. We will have an opportunity to digest this information in the meantime. We shall probably require more information from you, and we will write to you about it and I am sure we will get it in due course.

Thank you very much.

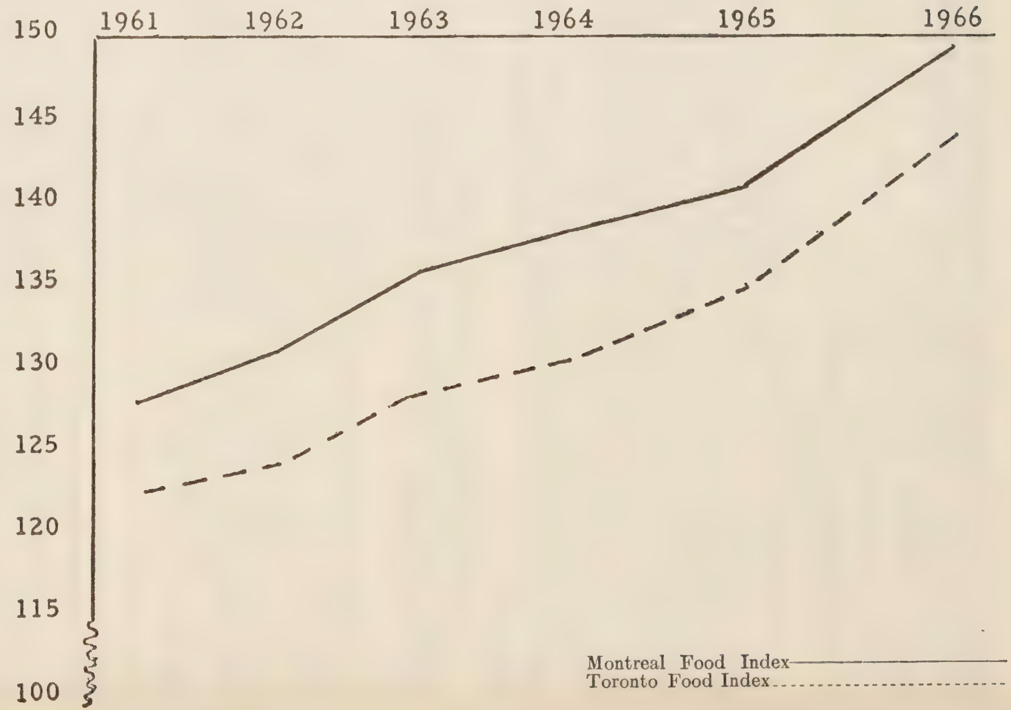
The committee adjourned.

EXHIBIT A(1)

PREAMBLE

CONSUMER PRICE INDEX—FOOD

	1961	1962	1963	1964	1965	1965 Jan.-Aug.	1966 Jan.-Aug.
D.B.S. Food Index							
Montreal	128.2	131.1	136.0	138.4	141.0	140.5	149.4
Year over Year change—%		2.3	3.7	1.8	1.9	....	6.3
Toronto	122.9	124.5	128.6	130.9	135.2	133.9	144.5
Year over Year change—%		1.3	3.3	1.8	3.3	....	7.9



SOURCE: Dominion Bureau of Statistics—Prices and Price Indexes, Cat. No. 62002

EXHIBIT A(2)

TABLE 1

Table Showing Steinberg's Limited—Sales and Profits
Ten Year Review

This table has been provided to give a picture of Steinbergs results over the past ten fiscal years. These figures are for the entire company, including our Quebec and Ontario Divisions, the Department Store Division, Manufacturing, Processing and Trading Stamps contributions.

There were a number of highlights which materially affected our results over the years. A large scale equity financing, the acquisition of the Grand-Union chain in Ontario, the opening of department store units were factors which influenced results in the year of occurrence and over subsequent years as well.

EXHIBIT A(3)

TABLE 2

STEINBERG'S LIMITED—SUPERMARKET OPERATIONS

Operating Trends—1960/61—1965/66
Index Based on Dollars

	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	Average Annual Increase
Sales	100	107	110	120	134	140	6.7
Gross Margin $	100	106	113	127	142	152	8.7
Operating Costs $	100	108	113	125	138	149	8.2
Selected Costs							
Warehousing	100	109	120	134	147	155	9.2
Transportation	100	107	111	122	137	145	7.5
Store Salaries and Wages	100	111	119	132	150	167	11.2
Store Fringe Benefits	100	97	100	113	134	155	9.2
Occupancy	100	119	125	139	151	160	10.0
Supplies	100	102	107	112	129	132	5.3
Administrative	100	99	105	119	139	150	8.3
Real Estate taxes (i)	—	—	100	112	119	132	8.0
Equipment Costs (ii)	—	—	100	102	111	125	6.3
Construction Costs	—	100	104	108	114	125	5.0

(i) Based on sample of selected cities in Province of Quebec.

(ii) Based on selected stores.

EXHIBIT A(4)

Sales and Profits—Steinbergs Ltd. 1956–1966

	1956/57	1957/58	1958/59	1959/60	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66
Sales (000)	$132,431	$150,926	$178,261 (1)	$238,117 (1)	$253,222	$267,965 (2)	$286,810	$327,227	$379,097	$400,882
Year over Year Percent Change	—	13.9%	18.1%	33.6%	6.3%	5.8%	7.0%	14.01%	15.9%	5.7%
Profits (000) Before Taxes	$ 4,664	$ 5,559	$ 6,148	$ 6,564	$ 8,357	$ 8,332	$ 9,631	$ 12,286	$ 15,000	$ 15,377
Year over Year Percent Change	—	19.2%	10.6%	6.8%	27.3%	(0.3%)	15.6%	27.6%	22.1%	2.5%
After Taxes	$ 2,397	$ 2,995	$ 3,393	$ 3,242	$ 3,818	$ 4,137	$ 4,801	$ 6,012	$ 7,135	$ 7,640
Year over Year Percent Change	—	24.9%	13.3%	(4.5%)	17.8%	8.4%	16.1%	25.2%	18.7%	7.1%
Percent to Sales	1.90%	1.98%	1.81%	1.67%	1.51%	1.54%	1.67%	1.83%	1.88%	1.90%
Return on Equity (after Tax)	11.45%	12.05%	8.78% (3)	7.32%	7.97%	8.13%	8.75%	10.18%	11.07%	10.90%
Total Capital (after Tax)	9.88%	10.62%	8.21%	7.13%	7.65%	7.97%	8.56%	8.07%	10.01%	8.63%

(1) Includes Sales of Grand Union Chain Acquired at end of 1958–1959 Fiscal Year.

(2) Department Stores opened in this Fiscal Year.

(3) Shareholder's equity increased substantially from 24.9 mi. to 38.6 mi. in 1958–1959.

EXHIBIT A(5)

RETAIL PRICE MARK-UP, SELECTED HIGH TURNOVER ITEMS

Item		Per Cent Mark-Up		
		1963/4	1964/5	1965/6
		%	%	%
Heinz Ketchup	20 oz.	20.44	20.47	20.47
Steinberg's Ketchup	20 oz.	19.74	19.74	18.65
Cream-O Instant Coffee	6 oz.	26.63	21.16	22.16
Miracle Whip Salad Dressing	16 oz.	19.56	18.84	18.84
Raymond Pure Strawb. Jam	24 oz.	21.92	19.24	20.72
Prem Luncheon Meat	12 oz.	20.17	17.89	30.59
Kraft Velveeta Cheese	8 oz.	24.89	16.76	16.76
Cheese Whiz Plain	8 oz. jar	21.40	16.76	16.57
Kraft Canadian Slices	1 lb.	21.95	15.94	16.77
Mom's Margarine	1 lb.	14.67	10.77	10.94
Heinz Beans in Tom. Sc	15 oz.	22.98	19.51	20.51
Campbell Veg. Soup	10 oz.	20.00	19.31	20.00
Dainty Rice	1 lb.	17.89	17.89	17.89
Robin Hood Instant Oats	44 oz.	18.91	19.25	14.90
Kellogs Corn Flakes	16 oz.	20.24	20.24	17.95
Crino Powdered Skim Milk	1 lb.	19.39	19.11	16.67
Orchard King Cut Wax Beans Ch	20 oz.	21.62	28.65	28.65
O.K. Fruit Cocktail	28 oz.	22.98	23.21	26.53
Orchard King Tomato Jce	20 oz.	18.79	24.24	25.14
O.K. Frozen Conc. Orng. Jc	$6\frac{1}{4}$ oz.	23.58	25.00	25.08
O.K. Peas Ungrad. Choice	20 oz.	19.51	19.49	24.19
Five Roses All Purp. Flr. Wh	1 lb.	16.52	17.43	17.43
Tide Detergent	Giant	21.56	16.00	14.95
Kleenex Facial Tissues	400's	26.76	25.67	21.61
Elegant Toilet Tissue, pkg	8's	26.80	24.16	24.16
Viau Tea Biscuits	1 lb.	24.62	24.62	24.62
Christie Soda Crackers	1 lb.	23.90	22.05	22.05
Pinky Potato Chips	1 lb. bag	30.38	30.38	32.41
Quebec McIntosh Apples	4 × 10	15.7	16.6	12.9
Potatoes Quebec	50's	5.	22.4	4.4
Pears U.S.	45's	33.8	33.6	34.6
Bananas, Lg	40's	27.7	20.6	29.0
Seedless Grapes	20's	13.1	5.1	15.7
Sunkist Oranges, Size	163	38.8	36.7	25.6
California Tomatoes	17's	30.4	35.6	38.8
		Jan. 1964	Jan. 1965	Jan. 1966
Beef		24.61%	25.23%	19.21%
Bacon		25.75	27.00	24.25
Chickens		28.00	28.75	22.75

Gross Margins as shown are retail price minus supplier invoice price. This gross margin is before retailer distribution costs, such as warehousing, transportation, waste and other handling charges, which could vary from 2.5 to 6.0% points.

Oct. 17/66

EXHIBIT A(7)

Gross Margin Variations between Commodity Groups

Commodity Group	Per Cent Margin 1965–1966
	%
Candies	28.07
Soaps and Detergents	19.78
Household Needs	32.53
Cleansers and Washing needs	21.13
Cheese	21.45
Canned Vegetables	22.53
Health and Beauty Aids	39.22
Tea	19.62
Flour	19.88
Tobacco	8.25
Canned Milk and Cream	20.45
Butter	4.52

Gross Margins as shown are retail price minus supplier invoice price. This gross margin is before retailer distribution costs. such as warehousing, transportation, waste and other handling charges, which could vary from 2.5 to 6.0% points.

Oct. 17/66

EXHIBIT A(8)

RECENT MARK-UP HISTORY OF SELECTED STAPLE COMMODITIES

	October 1966	Mid-1966
Bread		
White Sliced, 24 oz	10.25%	23.00%
Milk		
3 Qts. Homo	4.69%	No change
1 Qt. Homo	12.50%	No change
Eggs		
Grade "A" large (doz.)		
1966	Retail Price	% Mark-Up
January	.37¢	13.5%
May	.49¢	14.3%
October	.78¢	14.1%

Gross Margins as shown are retail price minus supplier invoice price. This Gross Margin is before retailer distribution costs, such as warehousing, transportation, waste and other handling charges, which could vary from 2.5 to 6.0% points.

EXHIBIT A(9)

STEINBERG'S ADVERTISING AND SALES PROMOTION EXPENSE AND REVENUE FOOD STORES 1960–1966

Per Cent to Sales

	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66
Advertising and Sales Promotion Expense	2.46%	N.A.	2.75%	2.73%	2.78%	2.81%
Advertising and Sales Promotion Revenue	.62%	N.A.	.93%	.92%	1.07%	1.14%
Net Expense	1.72%	1.85%	1.82%	1.81%	1.71%	1.67%

EXHIBIT A (10)

SEPTEMBER 1966

chain store age

SUPERMARKET EXECUTIVES EDITION

"Our sales increase would have been only 5% or 6% without 'Bonus Bingo' . . . with our game, sales are up 11% and earnings up 29%."

Robert Magowan, president, Safeway Stores

GAME PLAYING HITS PEAK!

On tap: bigger cash prizes, more punch card games to guarantee more winners, game-continuity-sweepstakes tie-ins. Full report with pros and cons begins on

CONTENTS PAGE 6

ISSUED IN 2 SECTIONS, 1 AND 2 BOUND TOGETHER • THREE DOLLARS A YEAR (USA)

24998—8

EXHIBIT A(11)

TABLE 9

COMPARISON OF READY MADE CONVENIENCE FOOD PRICES (RETAIL) WITH THOSE REQUIRING PREPARATION

Ready Prepared Foods	Foods that Need Preparation (Ingredients at Retail Prices)
1. Quaker Ready to Serve Oatmeal 10 oz. 37¢	Quaker Quick Oats 10 oz. 15¢
2. Dainty Instant Fried Rice 12 oz. 39¢	Dainty Regular Rice with ingredients to make fried rice 10 oz. 20¢
3. Kellogg's Sugar Frosted Flakes 10 oz. 35¢	Kellogg's Corn Flakes 10 oz. 28¢
4. Kraft Spaghetti Dinner with Tomato Sauce 12⅔ oz. 49¢	Catelli Spahetti with Sauce "do it yourself" 12 oz. 26¢
5. Sealtest Orange Juice 40 oz. carton 49¢	Orchard King Frozen Orange Juice 40 oz. 37¢
6. Robin Hood Cake Mix .... 43¢ plus 2 eggs .... 14¢ 57¢	Cost of ingredients for home baked cake 39¢
7. Shiriff's Instant Mashed Potatoes—6 oz. pkg. 35¢	Fresh Potatoes 3 lbs. 2 oz. 6½¢ (50 lb. bag)
8. Instant Coffee 4 oz. 60 cups 75¢	Roast Coffee (ground) lb. 85¢
9. Frozen Peas 12 oz. 2/45¢	Canned peas 12 oz. 2/36¢
Frozen Green Beans 10 oz. 2/49¢	Canned Green beans 10 oz. 2/37¢
Frozen Corn 12 oz. 2/43¢	Canned corn 12 oz. 2/33¢

EXHIBIT A(12)

COMPARATIVE RETAIL PRICES—NATIONAL BRANDS *vs.* PRIVATE LABEL ITEMS IN STEINBERG STORES

National Brand	Price	Private Label	Price	Saving
1. Scotian Gold Apl. Sce. Fcy. 20 oz.	2/43¢	O.K. Apple Sauce. Fcy. 20 oz.	2/39¢	.06¢
2. Gattuso Veg. Oil 32 oz.	.93	Steinberg Pure Veg. Oil 32 oz.	.79	.14
3. Crino Powdered Milk 3 lb.	1.29	Steinbergs Ins. Pow. Milk 3 lb.	.99¢	.30
4. Gattuso Asst. Macaroni 2 lb.	.47	Steinbergs Asst. Macaroni 2 lb.	.35	.12
5. Rite Paper Toil. Tiss. Ass. 650	8/1.24	Elegant Toil. Tiss. Ass. Col.	8/97	.27
6. Kleenex Fac. Tiss. Ass. Co. 400	2/71	Elegant Fac. Tiss. Ass. Col.	2/61	.10
7. Guest Rainbow Napkins 60	2/41	Steinberg White Serv. 60	2/35	.06
8. Guest Wax Paper 100 ft.	2/74	Steinberg Wax Paper 100 ft.	2/69	.05
9. Frontenac Ice Cream ½ gal.	1.05	Ice Castle Ice Cream ½ gal.	.89	.16
10. Kraft Canadian Sliced 8 oz.	.41¢	Field O'Clover Cheese sliced 8 oz.	.35¢	.06¢
11. Mom's Margarine 1 lb.	2/75	Steinberg Margarine 1 lb.	2/59	.16
12. Minute Maid. Conc. Orng. Jc 12	2/1.18	O.K. Conc. Orange Jce 12½ oz.	2/89	.29
13. York Peanut Butter 48 oz.	1.29	Steinberg Peanut Butter 48 oz.	1.15	.14
14. Heinz Ketchup 15 oz.	.37	Steinberg Ketchup 15 oz.	.31	.06
15. French's Mustard 24 oz.	.35	Steinberg Mustard 24 oz.	.19	.16
16. Miracle Whip Salad Dress	.69	Steinberg Salad Dressing 32 oz.	.59	.10
17. Libby Beans w/pork-Cs. 20 oz.	2/57	Steinberg Beans w/pork in tom.sc.20oz.	2/45	.12
18. Ideal Cut Gr. Beans Ch. 20 oz.	2/41	O.K. Cut. Gr. Beans Ch. 20 oz.	2/35	.06
19. Ideal Cut Wax Beans Ch. 20 oz.	2/41	O.K. Cut Wax Beans Ch. 20 oz.	2/37	.04
20. Niblet Whl. Kernel Corn Fcy 14	2/43	O.K. Whole Kernel Corn Fcy 14	2/37	.06
21. Aylmer Tomatoes Ch. 28 oz.	2/75	O.K. Tomatoes Ch. 28 oz.	2/70	.05
22. Del Monte Frt. Cockt. Fcy. 28	.51	O.K. Frt. Cocktail Fcy 28 oz.	.47	.04
23. Libby Tom. Jce. Fcy 105 oz.	.77	O.K. Tomato Jc. Fcy 105 oz.	.69	.08
24. Allen Vita Apple Jce. 48 oz.	.39	O.K. Vita Apple Jce. 48 oz.	.37	.02
25. Maxwell Hs. Ins. Coffee 10 oz.	1.89	Cream-O Ins. Coffee 10 oz.	1.39	.50
26. Salada O. Pekoe Tea Bags 120	1.67	Pagoda Or. Pekoe Tea Bags 120	1.09	.58
27. Nestle Choc. Quik 2 lb.	.99	Steinberg Ins. Choc. 2 lb.	.79	.20
28. Five Roses Flour 10 lb.	1.15	Steinberg All Purp. Flour 10 lb.	.95	.20
29. Bold Detergent King Sz.	1.89	Steinberg Pow. Detergent King sz.	.99	.90
30. Blue Breeze Det. Kg. sz.	1.99	Steinberg Blue Pow. Det. Kg. sz.	.99	1.00
31. Dash Detergent Jumbo sz.	3.59	Steinberg Conc. Suds Det. 9 lb. 6 oz.	2.49	1.10
32. Vel Liquid Det. 32 oz.	1.09	Steinberg Pink Lotion Det. 32 oz.	.59	.50
33. Windex Window Cleaner 20 oz.	.45	Steinberg Window Cleaner Spec. 20	.29	.16
34. Javex Liquid Bleach 128 oz.	.88	Steinberg Conc. Javel 128 oz.	.69	.19
35. Fleecy Laundry Rinse 64 oz.	.88	Steinberg Fabric Softener 64 oz.	.59	.29
36. Mr. Clean Big Cleaner 32 oz.	.97	Steinberg All. Purp. Big Cnr. 32	.59	.38
37. SOS Steel Wool Pads 10's	.28	Steinberg Soap Pads 10's	.23	.05
38. Alcan Foil 25 ft.	3/1.11	Steinberg Alum. Foilwrap 25 ft.	3/1.00	.11
39. Prestone Anti-freeze. Gal.	3.17	Miracle Mart Anti-freeze. Gal.	2.57	.60
TOTAL	$38.45	TOTAL	$29.11	$9.34 OR 24.2 %

Above prices as of September 29, 1966 (Montreal area).

EXHIBIT A(13)

11. Your policy with respect to specials for such items as broilers, beef, etc.

TABLE 11

We work prominently on the following commodities in our advertising and feature programme. Beef, chicken, turkey, ham, frozen and fresh lamb, veal, pork loins. Our method for selecting one of these items each week is taking into consideration:—

Price, time of the year or season, and availability of merchandise. Such items as turkeys and hams are featured during the Easter, Thanksgiving and Christmas periods which is a natural tie in with these Holiday periods. During the winter months we concentrate heavily on featuring beef and pork. During the summer period with many people anxious to serve quick and easy meals and to do less cooking, such items as B.B.Q. chickens and hams are advertised since preparation of these items is less time consuming than beef and pork. When fresh veal or fresh Canadian lamb is available in the quantities necessary for our purposes, we will advertise these.

Setting of prices for these features is based on the cost of merchandise at time of feature, past history and performance of that particular commodity is also taken into consideration. The gross margin earned on chickens 2-3 lbs is approximately $\frac{1}{2}$¢ to 1$\frac{1}{2}$¢ lb.—beef, approximately 10-15%—pork, 12-15%—turkeys, 1¢ to 4¢ lb.—lamb and veal, 12-18%—ham, 1¢ to 5¢ lb.

The profits shown here include only the cost of raw merchandise to retail sales and do not show labour at store level, packaging, depreciation, etc.

During a feature we never adjust upward on other commodities to make up the difference of gross margin lost on the feature product.

EXHIBIT A(14)

12. How do you assure yourself that your prices are competitive?

COMPETITIVE PRICE-CHECKING

For over fifteen years, Steinbergs has had a program of retail price analysis. The present program consists of:

1. an everyday spot-check on fluctuating price commodities such as eggs, produce and meat items and

2. a complete retail price analysis on a regular basis of all major competitors in our trading areas. From prices collected in each store on over 800 comparable or identical items, it is possible to determine what the price level is in any store or region.

At the same time, each store manager is expected to keep close tab on food prices in his market area and to keep management informed on price levels, changes in price and services available in competitive stores.

As a result of such studies, we have determined that our total value is equivalent or better than any competitor in the areas in which we operate.

EXHIBIT A(15)
TABLE 13

TRENDS IN MARKET POSITION
CHAINS AND INDEPENDENT STORES
QUEBEC AND ONTARIO

	Quebec		Ontario	
	Chain Market Share	Independent Market Share	Chain Market Share	Independent Market Share
1960	33.0%	67.0%	60.5%	39.5%
1961	32.9%	67.1%	60.0%	40.0%
1962	31.4%	68.6%	59.9%	40.1%
1963	30.3%	69.7%	59.2%	40.8%
1964	31.1%	68.0%	59.8%	40.2%
1965	29.8%	70.2%	60.5%	39.5%

SOURCE: Dominion Bureau of Statistics (Catalogue No. 63005) Retail Trade–Grocery and Combination Store Sales.

APPENDIX No. 9
TABLE I

CHANGE IN THE COST OF LIVING IN TWENTY-SEVEN COUNTRIES

	Percentage Change 1958 to May 1966	Percentage Change In Last 12 months
United States	12	3
Canada	15	4
South Africa	17	3
Australia	18(1)	4
Greece	19	5
New Zealand	21(2)	2
Belgium-Luxembourg	21	5
Germany	22	4
Mexico	22	3
Portugal	23	5
Switzerland	24	5
Pakistan	24	9
United Kingdom	26	4
Ireland	27	2
Austria	28	2
Norway	28	2
Italy	32	3
Sweden	33	8
France	36	3
Finland	39	4
Denmark	41(3)	6
Japan	50	5
India	50	9
Israel	58(4)	8
Spain	62(3)	7
Turkey	77	11
Yugoslavia	163	37

SOURCE: International Monetary Fund, *International Financial Statistics* August 1966.
(1) March figure.
(2) First quarter figure.
(3) April figure.
(4) June figure.

TABLE II

Comparison of Canada and United States Consumer and Wholesale Prices
(1958 = 100)

	Wholesale Prices			Consumer Prices			Canadian Import Prices	Canadian Exchange Rate $ 1948=100	
	Canada (1)	U.S. (2)	(1)/(2) (3)	Canada (4)	U.S. (5)	(4)/(5) (6)	(7)	(8)	(9)
1958	100.0	100.0	100.0	100.0	100.0	100.0	100.0	97.06	100.0
1959	101.2	100.2	101.0	101.1	100.8	100.3	98.2	95.90	98.8
1960	101.4	100.3	101.1	102.3	102.4	99.9	99.1	96.97	99.9
1961	102.4	99.9	102.5	103.3	103.5	99.8	102.2	101.32	104.4
1962	105.4	100.2	105.2	104.5	104.7	99.8	106.9	106.89	110.1
1963	107.4	99.9	107.5	106.3	106.0	100.3	111.1	107.85	111.1
1964	107.7	100.1	107.6	108.2	107.3	100.8	112.3	107.86	111.1
1965	109.9	102.1	107.6	110.9	109.1	101.6	112.6	107.80	111.1
1966—Jan.-Aug.	113.7	105.2	108.1	114.5	111.7	102.5			
1965—June	110.7	102.4	108.1	111.1	109.3	101.6			
July	110.7	102.5	108.0	111.5	109.4	101.9			
Aug.	110.4	102.5	107.7	111.4	109.2	101.9			
Sept.	110.2	102.6	107.4	111.2	109.4	101.6			
Oct.	110.7	102.7	107.8	111.4	109.6	101.6			
Nov.	111.4	103.1	108.1	112.1	109.8	102.1			
Dec.	112.1	103.7	108.1	112.5	110.2	102.1			
1966—Jan.	113.0	104.2	108.4	112.9	110.2	102.5			
Feb.	114.0	105.0	108.6	113.6	110.8	102.5			
Mar.	113.3	105.0	107.9	113.8	111.2	102.3			
Apr.	113.2	105.1	107.7	114.5	111.7	102.5			
May	113.6	105.2	108.0	114.6	111.8	102.5			
June	113.9	105.3	108.2	114.9	112.1	102.5			
July	114.1	106.0	107.6	115.3	112.5	102.5			
Aug.	114.3	106.1	107.7	115.8	113.0	102.5			

Source: Computed from statistics published by the Dominion Bureau of Statistics, and the United States Department of Commerce.

TABLE III

Percentage Change in Components of Canadian and U.S. Consumer Price Indexes

	Percentage Change from 1963 to July 1966	
Consumer Price Index	Canada	U.S.
—Food	12.0	8.8
—Non-durables (ex. food)	5.7	4.7
—Durables	−.2	.9
—Shelter	8.7	3.3
—Other services	15.2	9.6

	Percentage Change from 1958 to June 1966	
Wholesale Price Index	Canada	U.S.
Farm		
—Farm Products	12.9	.6
Industrial		
—Raw and partly manufactured	15.6	—
—Fully and chiefly manufactured	13.0	—
—Industrial Crude materials	—	9.9
—Industrial intermediate materials	—	4.5
—Industrial finished materials	—	7.7
Building Materials		
—Non-residential	16.0	
—Residential	19.3	

Source: See footnote to Table II.

TABLE IV

UNEMPLOYMENT IN CANADA AND THE UNITED STATES
(1958—Aug. 1966)

	Canada (1)	U.S. (2)	(1)/(2) (3)
	%	%	
1958	7.0	6.8	102.9
1959	6.0	5.5	109.1
1960	7.0	5.6	125.0
1961	7.1	6.7	106.0
1962	5.9	5.6	105.4
1963	5.5	5.7	96.5
1964	4.7	5.2	90.4
1965	3.9	4.6	84.8
1966—Jan.-Aug.	3.6	3.9	92.3
1965—June	4.3	4.7	91.5
July	4.2	4.5	93.3
Aug.	3.9	4.5	86.7
Sept.	3.6	4.4	81.8
Oct.	3.3	4.3	76.7
Nov.	3.5	4.2	83.3
Dec.	3.4	4.1	82.9
1966—Jan.	3.5	4.0	87.5
Feb.	3.5	3.7	94.6
Mar.	3.3	3.8	86.8
Apr.	3.3	3.7	89.2
May	3.7	4.0	92.5
June	3.7	4.0	92.5
July	4.1	3.9	105.1
Aug.	4.0	3.9	102.6

SOURCE: See footnote to Table II.

/10

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 10

THURSDAY, OCTOBER 20, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. S. Ron Basford, M.P.

WITNESSES:

Loblaw Groceterias Co. Ltd.: Mr. R. G. Meech, Q.C., Vice-President and Secretary Treasurer; Mr. Alex Agnew, Vice-President in charge of Meats; Mr. E. Davidson, Vice-President and General Manager of Services; Mr. George Huffman, Vice-President and General Manager; Mr. H. Shelly, Vice-President and General Manager of Warehousing; Mr. E. Rainey, Director of Produce Operations; Mr. George Astle, Merchandising Manager, Grocery Division; Mr. W. C. Miller, Dairy Dept. Manager; Mr. R. J. Kane, Management Consultant; Mr. A. Edwards, Director of Manufacturing and Bakery Depts.

Canada Safeway Limited: Mr. W. J. Kraft, Chairman of the Board and Director; Mr. R. G. Spelliscy, Area Comptroller; Mr. D. C. McGavin, Q.C., Director and Secretary; Mr. J. A. MacAulay, Q.C., Vice-President.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25012—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, Joint Chairman

the Honourable Senators

Carter,	Hollett,	O'Leary (*Antigonish-Guysborough*),
Croll,	Inman,	Thorvaldson,
Deschatelets,	McDonald (*Moosomin*),	Urquhart,
Hastings,	McGrand,	Vaillancourt—(12).

For the House of Commons

Mr. S. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,	Duquet,	Nasserden,
Andras,	Gray,	Olson,
Basford,	Irvine,	Otto,
Cashin,	Leblanc (*Laurier*),	Ryan,
Choquette,	Lefebvre,	Saltsman,
Clancy,	Mandziuk,	Scott (*Danforth*)
Code,	McCutcheon,	Smith.
Crossman,	McLelland,	Whelan—(24)

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the prob-

25012—1½

lems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, October 20, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Deschatelets, McDonald (*Moosomin*) and O'Leary (*Antigonish-Guysborough*).—5.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Gray, Leblanc (*Laurier*), Lefebvre, Mandziuk, McCutcheon, McLelland, Saltsman, Scott (*Danforth*) and Smith.—11.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant; Mr. John J. Urie, Q..C, Counsel.

The following were heard:

Loblaw Groceterias Co. Ltd.:

Mr. R. G. Meech, Q.C.,
Vice-President and Secretary Treasurer.
Mr. Alex Agnew,
Vice-President in charge of Meats.
Mr. E. Davidson,
Vice-President and General Manager of Services.
Mr. George Huffman,
Vice-President and General Manager.
Mr. H. Shelly,
Vice-President and General Manager of Warehousing.
Mr. E. Rainey,
Director of Produce Operations.
Mr. George Astle,
Merchandising Manager, Grocery Division.
Mr. W. C. Miller,
Dairy Department Manager.
Mr. R. J. Kane,
Management Consultant.
Mr. A. Edwards,
Director of Manufacturing and Bakery Departments.

At 1.10 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Deschatelets, McDonald (*Moosomin*) and O'Leary (*Antigonish-Guysborough*).—5.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Crossman, Leblanc (*Laurier*), Lefebvre, Mandziuk, McCutcheon, Olson, Saltsman, Scott (*Danforth*) and Smith—11.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant; Mr. John J. Urie, Q.C., Counsel.

The following were heard:

Canada Safeway Limited:

Mr. W. J. Kraft,
Chairman of the Board & Director.
Mr. R. G. Spelliscy,
Area Comptroller.
Mr. D. C. McGavin, Q.C.,
Director & Secretary.
Mr. J. A. MacAulay, Q.C.,
Vice-President.

At 6.30 p.m. the Committee adjourned until Tuesday next, October 25, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

ERRATUM

Proceedings No. 6: Page 320, Appendix 6, Table I:

Delete:

Year	Can.	Ont.	Que.
1965	3.06	3.05	3.22

and substitute:

Year	Can.	Ont.	Que.
1965	2.90	2.92	2.91

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Thursday, October 20, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Mr. BASFORD: Honourable senators and members of the House of Commons, I call the committee to order.

This morning we have before us representatives of Loblaw Groceterias Co. Limited. On my immediate left is Mr. H. Shelly, Vice-President and General Manager of Merchandising; next to him is Mr. R. G. Meech, Q.C., who will be presenting the brief, and who is Vice-President and Secretary-Treasurer; next to him on the far left is Mr. George Huffman, a Director and Vice-President of the company.

Without further ado I will call upon you, Mr. Meech.

Mr. R. G. Meech, Q.C., Vice-President, Secretary-Treasurer, Loblaw Groceterias Co. Limited: Thank you, Mr. Basford.

Senator Croll, Mr. Basford and gentlemen, we of Loblaws are indeed pleased and honoured by your invitation to attend this meeting of the Combined Senate-House of Commons Committee on Consumer Prices.

At the outset, let me say that we welcome this investigation into food prices and we are anxious to help this committee in every way possible. If we are unable to supply complete answers to all of your questions today, we will be pleased to submit detailed replies and any other required information to the committee as soon as possible.

I should like at this time to present to you some wonderful men in our organization. I shall call them out by name, and ask them to stand. They are experts in their various fields, and they have come today prepared to give such information as you honourable gentlemen wish to learn.

Mr. George Huffman, Vice-President for 40 years, and formerly General Manager of our company.

Mr. H. Shelly, Vice-President and General Manager of Merchandising of our company.

Mr. E. Davidson, Vice-President and General Manager of Services.

Mr. Alex Agnew, Vice-President in charge of meats.

Mr. George Astle, Merchandising Manager, Grocery Division.

Mr. E. Rainey, Director of our Produce Operations.

Mr. W. C. Miller, Dairy Department Manager, and well known to the agricultural group in Ottawa.

Mr. A. Edwards, Director of Manufacturing and Bakery Department.

Mr. Chairmen and gentlemen, before proceeding further I would like to apologize for the fact that copies of the brief we are presenting this morning are

not yet available in the French language. Copies in French are now in the process of preparation, and will be submitted to the committee as soon as possible.

It will be noticed that there is a portion in French, which I am unable to present to you in its proper and delightful way. However, I want to assure you, honourable senators and gentlemen, that my family and grandchildren are not overlooking the cultural aspects of the French language. I have seen to that.

In Canada, we are all deeply concerned with current inflationary trends. Wage-price spirals create tremendous problems for everyone. Escalating prices mean hardships for many people. Most of all, we deplore rising food costs. We can appreciate the consumers' concern, and I want to assure this committee that we are doing our utmost to keep the lid on prices. Unfortunately this becomes more and more difficult because of many cost factors that are outside the food retailer's control.

There are many reasons why price levels fluctuate; there are many factors which enter into price variations in specific products. The price the consumer pays for nearly every food product today is the sum total of several elements.

First of all there is the prime cost, that is, the cost of the raw material which may come from the next county, or from half way around the world, next, the cost of labour to convert or process the raw material; then the cost of services in getting the products to where they are available to the consumer; warehousing, transportation, handling, etc.

Finally, there is the element of profit, without which business enterprise and economic progress would disappear from the face of the earth.

Any significant change in the cost of any one of these elements, many of which are completely beyond the control of the food retailer, can result in a change in the consumer price—the price the housewife pays for food products.

Today everyone wants higher wages and lower prices. However, when wages increase prices tend to follow. This wage-price spiral is one of the most difficult forces to control in our whole economic sturcture.

The Loblaw organization and its operations encompass the activities of many controlled companies with varying degrees of ownership and management participation. More and more each year, Loblaws represents a thoroughly diversified and well integrated operating and holding company with interests in many fields of retailing, whosesaling, processing, marketing and distribution, in both Canada and the United States.

In the retail field, the Loblaw organization operates over 600 stores, varying in size from a minimum selling area of 4,000 square feet to a maximum of 30,000 square feet. Total number of store employees is approximately 16,500, of whom 9,000 are full time and 7,500 part time.

The change in retail food distribution during this century has been great. Forty-seven years ago, in 1919, Loblaws self-service stores carried some 450 items. In 1928 a good supermarket handled some 900 items, by 1952 it had 4,000.

Today, because of the individual preferences of customers, Loblaws' stores must now stock between 6,000 and 8,000 items, including local products and national brands. The number of items carried by the average supermarket has been increasing now for many years and is expected to reach 12,000 by 1970. This multiplicity of lines costs more to handle and to warehouse, to display and to sell, but, since the consumers demand it, the retailers must comply with their wishes.

The components of the organization produce or process a wide variety of the products sold in the retail stores, including tea, coffee, nuts, various bakery products, biscuits, fresh produce, peanut butter, sausage, delicatessen lines, and butter, cheese and other dairy products. While the variety of such products is wide, the total in terms of Loblaws' total sales is small, comprising less than 5

per cent of such total. Apart from the foregoing, all purchases are made from outside suppliers over which Loblaws exercises no control.

In Loblaws retail operations in Canada since 1960 the trend of sales has been upward. In 1961 reported sales were $471 million. In successive years, sales have increased over the prior year by 4.8 per cent, 5.2 per cent, 5.7 per cent, 5.2 per cent and 5.6 per cent. In the same period 1961 to 1966 net profits have increased each year. However, the percentage of net profits to sales after taxes in those years has remained relatively constant. In 1961 it was 1.95 per cent; in 1962, 1.98 per cent; in 1963, 1.92 per cent; in 1964, 1.90 per cent; in 1965, 1.92 per cent; in 1966, 1.88 per cent. These figures are shown in more detail in the following schedule.

LOBLAW COMPANIES LIMITED

Summary of Canadian Retail Operations

Year	*Reported Sales* (000,000)	*Profit Share* (000)	*Percentage to Sales* %
1961	471	9,185	1.95
1962	498	9,860	1.98
1963	522	10,022	1.92
1964	552	10,488	1.90
1965	580	11,136	1.92
1966	613	11,524	1.88

Since the accounts of the company are prepared on a consolidated basis, the profit attributable to the reported Canadian retail sales is on an estimated basis. Carrying costs of investments in non-Canadian subsidiaries and dividends from such subsidiaries, subject to withholding taxes, are included in the above profit.

OPERATING COSTS:

Increased costs in many areas of operations have affected food prices. These are dealt with in some detail in the pages of analysis which follow.

SHARPLY INCREASED LABOUR COSTS:

These are reflected in a graph showing individual salary rises of a cross section of our store, warehouse and manufacturing employees between 1960 and 1966. Several of our labour contracts which continue through 1967 will show a further substantial rise next year similar to that shown in 1966 which, it will be noticed, was substantially higher in 1966 than in any other previous year.

FRINGE BENEFIT COSTS:

These have also risen sharply since 1960.

TAX INCREASES:

These have played a considerable part in the increase in operational costs. These have been most substantial. Particular reference is drawn to the municipal tax rises since the last commission in 1958, and the same locations are used in today's brief as were used in our brief in 1958.

TRANSPORTATION COST RISES:

Currently in 1966 these have been caused by the settlement of the trucking and rail strikes. Both the rails and the road transport haulers have in 1966 increased rates by 10 per cent.

MUNICIPAL TAXES—REALTY AND BUSINESS:

These taxes levied by municipalities have been an ever-increasing cost of doing business, affecting all sectors of the retail industry. We cite here the recent changes in these taxes as they apply to three of our locations. These are the same three locations that were used as examples in our 1958 submission to the Royal Commission on Price Spreads of Food Products.

	1958	1960	1966	% of increase
North Fleet Warehouse	$84,933.75	$97,929.33	$140,055.33	76.6
688 London Store	2,728.43	3,265.48	5,193.88	88.8
1630 Danforth Store (Toronto)	7,912.75	9,089.35	15,437.04	95.3

As business taxes are fixed percentages of the realty taxes, they have increased by the same percentages as above.

Business tax rates are 75 per cent of realty taxes for our warehouses, and 50 per cent of realty taxes for our stores.

ONTARIO RETAIL SALES TAX:

This tax which became effective September 1, 1961 in Ontario imposed a tax of 3 per cent on a wide range of consumables. Its immediate effect was to increase by 3 per cent the cost of maintenance material, equipment, building materials (except for a few natural products), the cost of rental equipment and telephone service. This tax was increased to 5 per cent effective April 1, 1966.

FEDERAL SALES AND EXCISE TAX:

As of January 14, 1963 this tax was extended to include production machinery and apparatus and building materials. This resulted in an immediate increase in the cost of construction and previously exempt equipment. The tax was imposed on a graduated basis, and its full effect has just recently been felt. The tax was imposed as follows:

4 per cent	June 14, 1963
8 per cent	April 1, 1964
11 per cent	January 1, 1965

The Ontario sales tax and the federal sales and excise taxes have increased operational costs as they are applied to building materials, equipment such as machinery and fixtures, maintenance parts, rental equipment and telephone service.

GASOLINE TAX:

This is a provincial tax, and directly affects delivery costs. It has risen from 13 cents per gallon in 1960 to 16 cents per gallon in 1966, an increase of 23.5 per cent. This tax has also been a factor in the increasing cost of P.C.V. transport rates.

TRANSPORT AND RAIL COSTS:

Following the recent trucking and rail strikes, 1966 rate increases are now reflecting approximately a 10 per cent increase over those formerly in effect and apply to both railways and P.C.V. transport haulers.

BETWEEN JANUARY 1960 AND OCTOBER 1966 COSTS ON SUPPLIES AND EQUIPMENT MOVED CONSIDERABLY HIGHER:

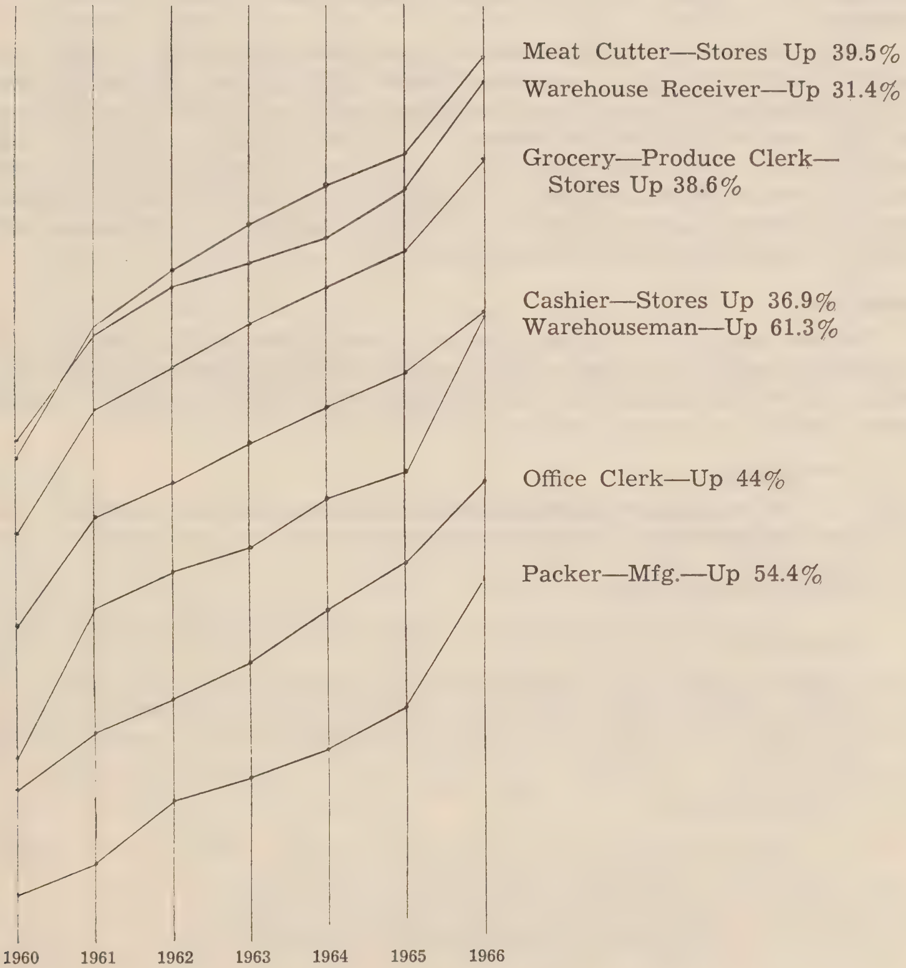
Metal cans have increased by 15 per cent.
Corrugated cartons have increased by 12 per cent.
Folding cartons have increased by 18 per cent.

Glass jars have increased by 13 per cent.
Printing papers have increased by 16 per cent.
Kraft wrapping paper has increased by 5 per cent.
Printed wrappers and labels have increased by 12-15 per cent.
Meat pre-packaging trays have increased by 16 per cent.
Cash registers have increased by 17 per cent.
Maintenance inspection service on our cash registers has increased by 40 per cent.
Meat saws have increased by 23 per cent.
Paper bags are also substantially higher.

WAGE COSTS:

Wage costs have increased steadily over the past years. The hourly wage rates and their percentage increases since 1960 are graphically shown below for a representative cross section of our employees.

HOURLY WAGE RATES



Loblaws spends considerable sums each year in its efforts to reduce costs and provide greater value to the consumer.

By producing or controlling the production or processing of our own merchandise, and by merchandising private label merchandise, we help reduce the costs of such products and this results in lower selling prices being passed on to the consumer.

Loblaws operates its own fleet of trucks which enables us to keep transportation costs down. At the same time it gives us control over our store deliveries, and reduces stock-out customer annoyances.

Recently Loblaws installed a revolutionary new egg-handling system—an electronically controlled system of delicate equipment that can carefully select, hygienically cleanse, accurately grade and automatically pack over 3,000 dozen eggs per hour. This is the first such equipment in Canada, and enables Loblaws to speed thousands of sanitized farm-fresh eggs to its stores and customers under the most healthful and controlled conditions—conditions which could not be met by having these services performed by suppliers. Thus Loblaws' customers benefit by getting the highest quality merchandise at competitive prices.

As a pioneer in the application of punch card accounting in the food industry, Loblaws has now undertaken another important and progressive step in the installation of the most highly advanced computer equipment available—the latest electronic I.B.M. 360 system. This ultra-modern, powerful unit will enable us to gain even better control over costs, profit margins, inventories and customer service. It will develop new analytical approaches to business problems, including more effective control over the various costs and efficiencies, and enable us to improve services to customers.

MARKUPS:

On the question of Loblaws' policy in connection with the method of establishing markups, our policy mainly is to use the "percentage on selling" method but we also employ the "cents markup" method on some items. Various factors influence our pricing, such as:

Competition

We regularly price check competitors' newspaper ads and flyers, and we also periodically review their shelf prices.

Psychological Pricing

This involves the selection of prices that are psychologically more acceptable to the consumer. For example, 39 cents is a considerably more popular price than 40 cents, and to many people as popular as 38 cents—therefore items which on the basis of strict percentage pricing should sell at 40 cents or 38 cents are frequently averaged out and sold at 39 cents.

Seasonal Pricing

Special pricing prevails at seasonal periods, which are of special importance to large masses of consumers. Examples:

—Preserving fruits at the peak of the season

—Turkeys at Thanksgiving and Christmas-time

—Hams at Easter

RETAIL MARK-UPS

Comparison Years 1964-1966

	1964 Gross Mark-up %	1966 Gross Mark-up %
Cigarettes, Carton	9.5	9.0
Maple Leaf Canned Ham, 1½ lb.	22.0	22.0
Catelli Spaghetti & Macaroni, 2 lb.	22.0	22.0
Sunlight Liquid Detergent, 24 fl. oz.	20.0	20.0
Mr. Clean Liquid Cleaner, 16 fl. oz.	19.2	19.2
Campbell's Tomato Soup, 10 fl. oz.	16.0	18.8
Eastlake Choice Tomatoes, 28 fl. oz.	24.2	22.5
Vinegar, Gallon	21.4	22.4
Heinz Strained Baby Foods	18.5	17.0
Crisco Oil, 12 fl. oz.	20.0	20.0
Nabisco Shredded Wheat, 18 oz.	21.0	21.2
Aylmer Choice Cream Style Corn, 15 fl. oz.	21.0	21.4
#1 White Liquid Honey, 32 oz.	23.0	22.0
5 Roses Flour, 7 lb.	15.5	16.5
Duncan Hines Cake Mixes	18.5	20.0
White Swan Toilet Tissue, 2 roll pkg.	22.6	24.0
Heinz Ketchup, 20 fl. oz.	20.8	22.0
Canada Dry Ginger Ale, 30 fl. oz.	20.0	20.0
Coca-Cola, 10 fl. oz. tin	19.1	19.1
Pride of Arabia Instant Coffee	20.5	21.0
Maxwell House Regular Coffee, 1 lb.	16.0	16.0
Pride of Arabia Regular Coffee	14.1	15.0
Loblaw's Red Label Tea Bags 60's	19.8	19.3
Salada Tea Bags 60's	16.0	16.0
Sovereign Red Sockeye Salmon, 7¾ oz.	15.3	20.7
Mitchell's Fancy Applesauce, 15 fl. oz.	23.4	23.0
Niblets Fancy Whole Kernel Corn, 14 oz.	19.3	22.8

No warehousing and distribution charges have been deducted before securing Gross Mark-ups

BUTTER:

We are presently paying some creameries 62½ cents per pound for butter prints delivered to our stores and due to the competitive situation are retailing it at 65 cents per pound. Our retail mark-up on butter ranges from 5 per cent to 10 per cent according to the competitive situation, and geographical location of the area has an effect at times.

EGGS:

Mark-up on eggs has been stationary for quite some time and ranges from a low of 8 per cent to a high of 12 per cent, again depending upon supply and demand of the various grades that are offered for sale. In other words, we could be obtaining a mark-up of 12 per cent due to a shortage of supply of any one particular grade but by the same token, some other grade could be in long supply and the margin would be less.

CHEESE:

Margins on cheddar cheese from our own production have been rather constant for the last several years and range from a low of about 15 per cent to a high of 22 per cent, again subject to supply and demand. Quality is an imperative consideration in all dairy products.

BREAD:

The retail price of bread was increased by 1¢ per 24 oz. loaf in December of 1962, another 1¢ in December of 1963, and a further 2¢ in February 1966—A total of 4¢ in a 5-year period—that is when sold at full retail price—a total increase of 16.66 per cent on the standard national brand 24 oz. loaf. The percentage increase in the net cost during the same period is on a parallel basis. The lower priced, or "economy" loaf follows a similar pattern as far as cost is concerned, this representing a 22 per cent increase during the same period. The selling price of this "economy" loaf varies from time to time and in various districts. In certain areas the selling price today is actually lower than that of 5 years ago, but in no area has the increase been more than 4¢ or 20 per cent over that of 5 years ago.

PEANUT BUTTER:

In the last 5 years peanut butter has increased approximately 4¢ per pound, an increase of approximately 11 per cent—the percentage mark-up remaining constant during the same period.

It may be of interest to note that during this same period the cost of raw peanuts has increased some 18 per cent. Containers and packing materials show an increase of upwards of 12 per cent. Labour charges have advanced approximately 30 per cent during this same period.

PREMIUM STAMPS:

Loblaws has issued "Lucky Green" Stamps through its Ontario and Manitoba stores for over seven years.

From the first day of their introduction in August, 1959, stamps have proved popular with our customers as is evident from the redemption experience of 90 per cent to 95 per cent.

To enable us to decrease costs and give the customer the maximum value, we operate our own premium stamp company—Blue Chip Merchandisers Limited, which is a wholly-owned subsidiary of Loblaw Groceterias Co., Limited.

The suggestion that consumers pay more when they get stamps with merchandise is completely false. Prices are determined by the law of supply and demand, and the free competition which is very active in our industry. In our case stamps have not increased prices. Stamps have increased store volume, and it is this increase in store volume, or greater use of store selling capacity, which pays the cost of stamps, not the customer, and a 12 per cent to 15 per cent increase in sales liquidates the additional cost of this form of promotion.

To compete successfully today merchandisers must promote their products in one form or another. Stamps are only one type of the many forms of promotional media in use.

Other promotional methods such as Games, Contests, etc. also become self-liquidating through the gain in sales created by such promotions. Many of these are subsidized by co-operating manufacturers and suppliers who avail themselves of the opportunity to join in the promotion, and thereby promote their own products.

Stamps, Games, Contests form only a small part of the overall cost of promotional media. If they were not used, it can be safely suggested that any cost involved would most certainly be transferred to other forms of promotion and advertising.

In our opinion Loblaw customers like stamps—they want stamps. Therefore, we provide stamps.

The cost of stamps has remained less than 1 per cent of sales and in addition, Loblaws' advertising and publicity costs, after deducting supplier advertising allowances, have been the following percentages of sales: 1961—0.8

per cent; 1962—0.7 per cent; 1963—0.8 per cent; 1964—0.9 per cent; 1965—1.1 per cent; 1966—1.1 per cent.

RAW OR SEMI-PROCESSED FOODS VS PROCESSED FOODS:

Below we have outlined the comparative value of the various types of Pure Orange Juice available to our customers. Various size containers have been converted to a basis of 24 fl. oz. for comparative purposes.

FRESH ORANGES

approximately one dozen 24 fl. oz. of juice. Approximate current retail .65¢

HEAT PROCESSED.

reconstituted in Canada from frozen concentrate
21½¢

FRESH SQUEEZED BY PACKER OR LOCAL DISTRIBUTOR

Product retailed in refrigerated cases. Frozen Concentrate used in most cases when Fresh Oranges unavailable
37½¢

FROZEN CONCENTRATE

6 fl. oz. reconstitutes to 24 fl. oz. 23 3/4¢
Using a 12 fl. oz. tin reconstituted to 48 fl. oz., cost to the customer would be 22½¢ for 24 fl. oz. of juice.

PRIDE OF ARABIA BEAN COFFEE:

3 pounds of green coffee is equivalent to 2½ pounds roasted bean coffee.
1 pound bean coffee makes 50/60 cups.
At 87¢ per pound store sell, the consumer cost is approximately 1.6¢ per cup.

PRIDE OF ARABIA INSTANT COFFEE:

3 pounds of green coffee is equivalent to 1 pound of instant coffee.
A 6 ounce jar of instant coffee makes 75/85 cups.
At 99¢ per jar store sell, the consumer cost is approximately 1.2¢ per cup.

PRIVATE LABEL MERCHANDISE
RETAIL SELL COMPARISON

	Private Brand	National Brand	
Ginger Ale, 30 fl. oz.	.14½	.24½	Canada Dry
Salad Dressing, 16 oz.	.39	.45	Miracle Whip
Pride of Arabia Instant Coffee, 2 oz.	.41	.59	Maxwell House
Pride of Arabia Instant Coffee, 6 oz.	.99	1.19	Maxwell House
Pride of Arabia Instant Coffee, 10 oz.	1.53	1.69	Maxwell House
Trumpet Instant Coffee, 2 oz.	.37	.59	Maxwell House
Trumpet Instant Coffee, 6 oz.	89	.99	Nabob
Trumpet Instant Coffee, 10 oz.	1.29	1.69	Maxwell House
Pride of Arabia Regular Coffee, 1 lb.	.87	.99	Maxwell House
Loblaw Red Label Tea Bags 60's	.73	.87	Salada
Loblaw Red Label Tea Bags 120's	1.39	1.63	Salada
Loblaw Medium Prunes, 16 oz.	.35	.45	Sugaripe
Loblaw Large Prunes, 16 oz.	.37	.47	Sugaripe
Loblaw Seedless Raisins, 16 oz.	.37	.41½	Sun Maid
Loblaw White Vinegar, 128 oz.	.73	.83	Heinz
Loblaw Quick Oats, 3 lb.	.49	.57	Quaker
Three Little Pigs Sausage, 1 lb.	.75	.82	Packer

In regard to coffee, our own brands are given preferred shelf space over national brands.

In addition, there is generally a price differential of 10 to 12 cents per pound in favour of our own brands.

This also applies to tea, where equal quality of our own brands sell under national brands at 12 to 14 cents less.

BREAD:

Private label bread retails presently anywhere from 15½¢ per loaf to 24¢ per loaf.

Comparable national brands (Toastmaster) retail presently anywhere from 4¢ to 12¢ per loaf higher.

PEANUT BUTTER:

The trend in recent years—as demanded by customers, has been towards the "homogenized" type of peanut butter.

Our own Jack & Jill brand homogenized presently sells at 43¢ per one pound jar, compared to a national brand (York) selling at 10¢ per jar higher—and displayed side by side with our own private label brand.

Our Jack & Jill "regular" grind, retails at 39¢ per one pound jar.

With the upward trend in cost being evident, we introduced a larger or "family size" jar (2½ lb.) in 1962, showing a saving of more than 3¢ per pound to the discerning housewife.

NOTE:

We are continually promoting, both in display and "special" prices, the more economically priced product to encourage sales.

MEAT AND PRODUCE:

Meat and produce represent together one third of the sales of a Loblaw retail food supermarket. We have always been closely competitive price-wise on meat and produce items—furthermore we give premium stamps or in effect a discount with all sales in both these categories.

Typical of Loblaws efforts to give the consumer the best value in relation to money spent was its introduction of Proten meat to Canada. Proten meat is of such high quality that Loblaws are willing to back up its guarantee of satisfaction with a "Double Your Money Back" guarantee. Loblaws has a team of meat specialists who do nothing but select top quality meat. These meat specialists are highly skilled and professionally trained.

All Loblaws beef is triple tested by three skilled inspectors—first by the Canadian Government, second by Loblaws trained buyers and a third inspection is made after the beef arrives at Loblaw supermarkets by another Loblaw meat expert. Only when fully satisfied of its goodness is Loblaws' meat trimmed of excess fat and bone and sold. It is prepared by professionally trained experts in a manner designed to give customers greater ease in cooking and serving and more value for their meat dollar.

We own our own meat warehousing which enables us to scientifically age and cure and control the quality of our meats and thus give our customers the highest quality meat merchandise.

Loblaws has always featured to the fullest extent possible the sale of Canadian grown produce and has tried to provide the customer with the widest selection available. Loblaws is also a world importer of citrus and other fruits and vegetables.

Although we have invested substantially in the most modern refrigeration equipment and employ up-to-date temperature control techniques the highly perishable nature of most produce makes spoilage losses unavoidable.

It is impossible to control day-to-day prices. Growers' prices fluctuate widely and rapidly in response to constantly changing "supply-demand" situations.

Our produce purchase commitments must often be made in advance. Projected requirements do not always balance with eventual consumer response.

For these reasons alone, retail merchandising of produce makes this the most difficult of all departments to operate profitably, or even within reasonable margins. Original markups which when set appear reasonable often disappear completely.

MEAT:

Our company has since its inception realized its obligation to the consuming public and has endeavoured to supply through its retail outlets the finest possible meat products, expertly prepared to provide the most for their meat dollar.

We have pioneered in co-operation with packers improved methods of presentation to economize and keep abreast of the consumer demand on such items as predressed poultry, fully skinned and defatted and practically waste-free hams, and clearview vacuum packed bacon. Another recent improvement which has had widespread acceptance is our method of preparing Proten beef cuts—practically waste-free and the ultimate for ease in carving. We also have presented with success boneless pork loins, again practically waste-free and simple to carve and serve.

From time to time we feature special prices on beef. This is very popular with the consumer, but very costly to our operation as our general meat gross markup is reduced 8 to 10 per cent by the feature in the areas affected.

The same popular acceptance is experienced when frying chickens are put on special with the same effect of reduced overall meat gross markup.

It might be noted that our general percentage of total tonnage sold on beef is 40.8 per cent and on poultry is 20.0 per cent. These are generally high volume, low markup items, particularly when on special. A completed categorized breakdown on meat sold is shown below:

CHAIN TONNAGE BREAKDOWN 16 WEEKS JUNE—SEPTEMBER

	1965	1966
Beef	39.2	40.8
Veal	2.8	1.7
Lamb	2.2	2.5
Pork	7.9	6.5
Fancy Meats	1.1	1.0
Sausage	2.5	2.4
Cured Meats	1.9	1.6
Smoked Meats	1.7	2.5
Bacon	4.8	4.3
Miscellaneous	2.9	3.6
Fish	2.4	2.5
Cooked Meats	10.6	10.6
Poultry	20.0	20.0
	100.0	100.0

AVERAGE SELLING PRICE 16 WEEKS JUNE—SEPTEMBER

	1965	1966
High	62.8¢ lb.	70.6¢ lb.
Low	59.9¢ lb.	63.3¢ lb.

	Proten Beef			*Regular Beef*		
	Sell	*Cost*	*%*	*Sell*	*Cost*	*%*
June 1965	67.72	47.00	30.60	62.35	44.76	28.21
June 1966	64.75	47.15	27.18	64.06	45.14	29.53
Under or Over 1965	—4.4%	0.3%	—3.4%	2.7%	0.9%	1.3%

1966 PERCENTAGE, BONE FAT & WASTE IN CARCASS BEEF:

When converting to retail cuts trim:

Proten	30.94%
Regular	30.46%

FRYING CHICKENS:

	Sell	*Cost*	*%*
June 1965	49	33	32.50
June 1966	53	35	33.00

When frying chickens are advertised they are sold at from cost to 3-5% over cost.

POLICY ON SPECIALS:

Policy with respect to specials on beef, fryers, etc. is to rotate the various items in geographically arranged groups across the chain from week to week to give our customers variety. This arrangement is also necessary on many items on which the supply would be inadequate to cover the entire chain at one time.

We advertise in 60 newspapers in Ontario alone.

CHAIN OPERATING RESULTS MEAT DEPARTMENT

	Gross Markup %	*Labour %*	*Labour Cost per lb.* ¢
Sept. 10, 1960	20.6	9.4	4.5
Sept. 17, 1960	22.8	7.7	4.5
Sept. 24, 1960	24.1	7.9	4.5
Oct. 1, 1960	22.6	7.6	4.5
Sept. 10, 1961	23.9	9.4	4.5
Sept. 17, 1961	21.8	7.7	4.5
Sept. 24, 1961	22.0	7.9	4.5
Oct. 1, 1961	17.8	7.6	4.5
Sept. 10, 1965	19.5	8.2	4.9
Sept. 17, 1965	19.0	7.8	4.9
Sept. 24, 1965	16.2	8.2	4.9
Oct. 1, 1965	22.2	8.3	4.9
Sept. 10, 1966	20.6	8.9	5.8
Sept. 17, 1966	21.8	8.5	5.8
Sept. 24, 1966	20.5	8.4	5.8
Oct. 1, 1966	20.2	8.5	5.8

Our costs of wrapping supplies are not deducted in arriving at markup; other chains use different methods.

PRODUCE:

Many purchases and sales must be projected for a period of seven to 10 days to make necessary arrangements for supplies. Since commitments of the consumer cannot be pinpointed, as many items are sold on impulse, some requirements are underestimated, others are overestimated. For this reason merchandising of produce is vastly different from that of canned goods and dry groceries because it is much more difficult to retain control over highly perishable lines.

Purchase costs and retail prices change frequently.

Examples:

Commodity	Availability	Number of Cost Changes	Number of Retail Changes
Lettuce	52 weeks	120	55
Cabbage	52 weeks	93	35
Tomatoes ...	52 weeks	57	47

AREAS AFFECTING THE PRODUCE MARGIN

(1) INHERENT DISEASE

PEACHES:

Peaches made ready for shipment by a grower and inspected meet the No. 1 Grade requirements. Then they arrive at our warehouse, they are checked again by our inspectors and quality is found to be O.K., then shipped to stores. Sometimes within two days brown rot has spread rapidly and all stock has to be repacked. Customers who purchased in this two-day period return merchandise and we suffer heavy losses.

POTATOES:

Potatoes could have soft blight which is not detectable at time packaged or at our own warehouse; two or three days later breakdown takes place and potatoes have to be repacked with loss of 35 to 40 per cent. We encountered this experience three to four weeks ago.

LETTUCE:

Outward appearance may be very good, but after customer purchases, lettuce is returned to store because of an internal disease known as tip burn. This is not visible from the outside, but when cut in half shows brown discolouration on inner leaves through to heart. This also contributes to dise and we suffer heavy losses.

(2) WEATHER:

Flash freezes, abnormally warm weather, extra heavy rainfall, or lack of rainfall can substantially reduce supplies. Demand increases and market prices increase substantially. This summer we experienced severe drought with hot weather in Ontario and as a result the cost of lettuce went from \$2 for a case of 24 in mid-July to \$6 in mid-August. Cabbage went from \$1.75 for 16 heads in mid-July to \$4.50 in mid-August. Cauliflower went from \$2.75 for a case of 12 to \$4.50 during the same period.

Naturally when retail prices were considerably higher, customers thought we were taking higher profits, when actually our margin was considerably lower.

(3) PERISHABILITY OF SPOILAGE:

All produce is alive and once it is harvested there is a gradual deterioration in all commodities—and a much faster rate in some others—strawberries, lettuce, peaches, celery, grapes, cantaloupes.

Original margin probably looked very good but anticipated movement does not materialize sometimes, and you are lucky to get out at cost or slightly above. Fast reductions are a necessity.

(Shrinkage—lost in retail value from spoilage and trimming and markdown).

These are examples of Present Margins.

Grapefruit	cost 6 for 36	sell 5 for 49	26½% margin
Oranges—24 to 31%			
Size 88	cost .58	sell .85	31% margin
	cost .58	sell .79 (feature)	26% margin
Size 112	cost .45	sell .65	31% margin
	cost .45	sell .59 (feature)	24% margin

The higher prices are regular prices—lower ones are the feature this week.

Apples—6 quart MacIntosh—22% to 27%			
6 quart	cost .62	sell .79 (feature)	22% margin
6 quart	cost .65	sell .89	27% margin

Lower price is the feature in effect last week—89c regular price.

Potatoes—25 pound			
25 pound	cost .60	sell .69 (feature)	13% margin
25 pound	cost .65	sell .89	27% margin

Lower price is a feature this week. Higher price—regular.

Potatoes—10 pound			
10 pound	cost .31	sell .45	31% margin
Carrots—3 pound			
3 pound	cost .31	sell .19	31% margin
Cauliflower	cost .21	sell .29 (feature)	31% margin
	cost .22	sell .33	33% margin

During the peak season in 1965—we were purchasing 6 quart peaches at a cost of 88¾ to 93¾¢ a six quart basket but during the last two years the pack of peaches has been reduced to a four quart basket. Our cost this past peach season for four-quart baskets ranged from 74 cents to 95 cents a four-quart basket.

GROWER CO-OPERATION:

We feature and promote all local grown merchandise, in season, regularly. We advertise weekly features such as 25-pound bags of potatoes, peaches, carrots, cauliflower, onions, celery, lettuce.

Over the years we have co-operated with Mr. D. Williams of the Ontario Food Council, when they have requests through grower organizations to move surplus crops, which could be potatoes, carrots, onions, turnips, apples and peaches.

It is essential to have a fast wide distribution for fresh fruit and vegetables in order to get the merchandise to the public quickly. We have these facilities and consequently can alleviate the situation quickly.

We make special "price cards" and "cappers," provide the best selling displays explaining the necessity of fast action to our store personnel, and as a result we have successful promotions.

We have many market gardeners and large growers, some of whom have brought their produce to Loblaws for 25 years. When they encounter surplus supplies together we work out ways and means of increasing sales and distributing all their surplus merchandise.

LOBLAW WAREHOUSE:

In perishable goods it is of the utmost importance that the least possible time elapses between the farm and the consumer. Loblaws' warehouse never closes. Merchandise harvested one day is delivered that afternoon and evening and distributed to retail stores in the night. Freshness and good appearance are one of the greatest of sales appeals for such crops. The Loblaw distribution system enables the products to be delivered even as much as 500 miles from the point of production.

IMPORTATIONS:

A large percentage of our importations come from the United States, but we still import from many other countries. We bring a large amount of oranges from South Africa and Israel, because we can retail them at a lesser price than a similar orange from California.

During the local growing season dump duties are levied on imported merchandise of the same type, and rightly so, but these dump duties are not flexible and sometimes are still in effect after the local crop is finished.

Example: Local lettuce has been finished for two or three weeks, but the dump duty of approximately 45 cents per case is still in effect. This all adds to extra cost. We stay with all locally grown produce items as long as they are in production, even though similar merchandise can be imported and sold at a lower price many times during the local season.

Attached are some recent margins of some of our major commodities.

GRAPEFRUIT

Date	Commodity	Cost	Sell	Margin
		$	¢	%
Jan. 6–66	Grapefruit 80	5.15	6/49	21.13
Jan. 20–66	" 80	5.30	6/55	27.69
Feb. 3–66	" 80	5.20	6/49	20.36
Feb. 17–66	" 80	5.55	6/59	29.47
March 10–66	" 80	5.40	8/65	16.92
March 24–66	" 80	5.35	6/59	32.02
April 14–66	" 80	5.55	6/59	29.47
April 28–66	" 80	5.90	6/65	31.94
May 12–66	" 40	3.05	6/69	33.69
May 26–66	" 40	4.20	5/69	23.90
June 2–66	" 40	4.10	5/69	25.71
June 16–66	" 48	3.50	5/59	31.08
July 7–66	" 48	3.90	5/59	31.08
July 21–66	" 48	3.90	5/59	31.08
Aug. 4–66	" 48	3.90	5/59	31.08
Aug. 18–66	" 48	3.90	5/59	31.08
Sept. 15–66	" 48	4.15	5/59	26.66
Sept. 29–66	" 40	4.50	4/59	23.71

Date	Commodity	Cost	Sell	Margin
		$	¢	%
Jan. 6–66	Oranges—Navel 113	4.00	.65	34.64
	" —Navel 138	3.65	.49	35.28
Jan. 27–66	" —Navel 88	3.90	.79	32.64
	" —Navel 113	3.85	.59	30.75
Feb. 3–66	" —Navel 88	3.90	.79	32.64
	" —Navel 113	3.75	.59	32.55
Feb. 10–66	" —Navel 88	4.00	.75	27.27
	" —Navel 113	3.85	.55	27.60
Feb. 24–66	" —Jaffa 105	4.10	.69	32.11
	" —Jaffa 123	4.10	.53	24.49
March 3–66	" —Navel 113	3.55	.53	28.85
	" —Jaffa 123	4.10	.59	32.22
March 24–66	" —Navel 88	3.96	.79	31.60
	" —Jaffa 105	4.10	.59	20.54
	" —Jaffa 123	4.10	.49	18.32
April 7–66	" —Navel 88	4.10	.79	29.18
	" —Jaffa 105	3.95	.59	23.45
	" —Jaffa 123	3.95	.49	21.31
April 28–66	" —Navel 113	3.65	.59	34.35
	" —Jaffa 105	3.75	.59	27.18
	" —Jaffa 123	3.75	.49	25.29
May 4–66	" —Navel 88	3.95	.79	31.77
	" —Navel 113	3.65	.59	34.35
May 12–66	" 88	4.20	.79	27.46
	" 113	3.80	.59	31.65
May 19–66	" —Florida 80	3.65	.79	30.73
	" 88	3.95	.85	36.59
June 2–66	" 88	4.05	.85	34.98
	" —Florida 100	4.10	.69	28.68
June 16–66	" —S.A. Navels 88	3.60	.69	30.82
July 7–66	" 138	3.55	.55	43.90
	" —S.A. 88	3.50	.69	30.82
	" —S.A. 112	3.50	.53	29.28
July 28–66	" —S.A. 64	3.50	6/49	33.06
	" —S.A. 88	3.25	.69	35.76
	" —S.A. 112	3.25	.53	34.33
Aug. 18–66	" —Valencia 113	5.10	.75	27.76
	" —Valencia 138	4.75	.55	24.96
Sept. 15–66	" —S. Africa 88	3.75	.75	31.80
	" —S. Africa 112	3.75	.59	31.93
Sept. 29–66	" —S. Africa 88	4.40	.85	29.36
	" —S. Africa 112	4.40	.65	27.50

PEACHES

Date	Commodity	Cost	Sell	Margin
	$	¢	$	%
Aug. 18–66	Peaches 4 × 4 qt. 3.60	90 bsk.	1.19 bsk.	24.30
Aug. 25–66	" 4 × 4 qt. 2.95	73¾	.79	6.63
Sept. 1–66	" 4 × 4 qt. 3.50	87½	.99	11.60
Sept. 8–66	" 4 × 4 qt. 3.70	92½	1.19	22.25
Sept. 15–66	" 4 × 4 qt. 3.80	95	1.29	26.34
Sept. 22–66	" 4 × 4 qt. 3.80	95	1.29	26.34
Sept. 29–66	" 4 × 4 qt. 3.80	95	1.29	26.34

APPLES

Date	Commodity		Cost	Sell	Margin
					%
Jan. 13–66	McIntosh	6 qt.	.68	.89	23.59
	Spy	6 qt.	.73	.99	26.76
Jan. 20–66	McIntosh	6 qt.	.64	.79	18.98
	Spy	6 qt.	.70	.99	29.29
Feb. 3–66	McIntosh	6 qt.	.65	.89	26.46
Feb. 17–66	McIntosh	6 qt.	.59	.75	21.33
	Spy	6 qt.	.70	.99	29.29
Mar. 10–66	McIntosh	6 qt.	.50	.69	27.53
	Spy	6 qt.	.70	.99	29.29
Apr. 14–66	McIntosh	4 qt.	.58	.69	15.94
	Spy	6 qt.	.70	.99	29.29
Apr. 28–66	McIntosh	4 qt.	.60	.79	24.05
May 12–66	McIntosh	4 qt.	.60	.79	24.05
	Spy	6 qt.	.70	.99	29.29
June 16–66	McIntosh	4 qt.	.60	.79	24.05
	Spy	6 qt.	.70	.99	29.28
July 21–66	McIntosh	4 qt.	.60	.79	24.05
Sept. 15–66	Wolfe River	6 qt.	.60	.89	32.57
	Melba	4 qt.	.60	.89	32.57
Sept. 22–66	Wealthy	4 qt.	.55	.79	30.36
Sept. 29–66	McIntosh	6 qt.	.68	.95	28.41

BANANAS

Date	Commodity	Cost	Sell	Margin
			¢	%
Jan. 20–66	Bananas	5.50	.20	27.63
Jan. 27–66	"	5.40	.20	28.94
Feb. 3–66	"	5.40	.20	32.50
Feb. 10–66	"	5.50	.19	27.63
Mar. 10–66	"	5.20	.19	31.57
Mar. 17–66	"	5.60	.19	26.31
Apr. 7–66	"	5.80	.20	27.50
Apr. 21–66	"	5.80	.21	30.95
May 4–66	"	6.20	.21	26.19
May 19–66	"	5.85	2/35	16.41
June 9–66	"	5.50	.21	34.51
June 23–66	"	4.35	.12	09.36
July 14–66	"	4.55	2/35	34.99
July 28–66	"	4.35	.12	09.36
Aug. 4–66	"	5.00	.19	34.21
Sept. 1–66	"	4.10	.12	14.57
Sept. 15–66	"	4.60	.19	35.51
Sept. 29–66	"	4.40	.12	08.32

POTATOES

Date	Commodity	Cost	Sell	Margin
				%
Jan. 20–66	Potatoes N.B. 10 lb.	.36	.59	38.93
	Potatoes N.B. 25 lb.	.76	1.09	29.13
Feb. 3–66	Potatoes N.B. 10 lb.	.37	.59	37.28
Feb. 17–66	Potatoes N.B. 10 lb.	.39	.59	33.84
Mar. 10–66	Potatoes P.E.I. 10 lb.	.45	.59	23.12
Mar. 17–66	Potatoes P.E.I. 25 lb.	1.15	1.59	22.67
Apr. 7–66	Potatoes P.E.I. 25 lb.	1.35	1.89	28.57
Apr. 21–66	Potatoes P.E.I. 10 lb.	.62	.89	30.68
Apr. 28–66	Potatoes P.E.I. 25 lb.	1.45	1.99	27.13
May 4–66	Potatoes P.E.I. 50 lb.	2.65	3.49	24.00
May 19–66	Potatoes P.E.I. 25 lb.	1.45	1.99	27.13
June 2–66	Potatoes P.E.I. 50 lb.	2.55	3.49	26.93
	25 lb.	1.40	1.99	29.63
June 9–66	Potatoes P.E.I. 10 lb.	.58	.85	31.75
July 14–66	Potatoes Ont. 10 lb.	.52	.69	34.62
Aug. 11–66	Potatoes Ont. 10 lb.	.32	.49	34.68
Sept. 1–66	Potatoes Ont. 10 lb.	.31	.49	30.72
Sept. 22–66	Potatoes Ont. 25 lb.	.62	.69	10.13
Sept. 29–66	Potatoes Ont. 10 lb.	.31	.49	36.72
	Potatoes Ont. 25 lb.	.67	.89	24.69

SMALL INDEPENDENT GROCER:

In Canada, food distribution is a vital economic function which has been revolutionized by the supermarket concept during the past two decades. Along with the chain food stores, the small independent grocer—with over 50 per cent of the food sales volume—continues to play a very important role in making Canadians one of the best fed nations in the world. We admire the independent grocer.

In the supermarket industry, prices are set by competition, by the free workings of the law of supply and demand. Competition is keen, and profit

margins are small. Volume is of paramount importance, and the customer controls volume. Therefore, supermarket operators must meet the needs of the customers in order to maintain or increase volume. This has resulted in an increase in the variety and the number of items carried in the store, an expansion in services provided, and improvement and modernization of store facilities, and a rise in the quality of goods sold. It has also created increases in operating costs.

At the same time, supermarket operators must endeavour to provide benefits to employees, and a just return on the capital employed in the business. Those who work in Loblaws are entitled to a fair wage, and those who put their money in the supermarket industry are entitled to a fair return on their investment. As operating costs and interest rates increase, more pressure is placed on the whole structure of supermarket costs and prices.

The supermarket industry is highly competitive. Price spreads among all chains are minute. The battle for the consumer's dollar is keen and unrelenting. There is a constant struggle to keep the lid on prices, but rising costs in all sectors of the economy—in business, labour and government—have built up inflationary pressures that are beyond the power of the retailer to control.

Coupled with spiralling costs is the fact that food production generally is not keeping pace with population. In Canada, in the United States, and elsewhere, food supplies are tightening, once-big surpluses are disappearing and world demands are growing.

For instance, there has been a drastic change in the demand/supply situation for wheat and for meat. Crop failures have caused shortages of fruit and vegetables. Canada, to the surprise of many people, is a big importer of food. Besides paying generally prevailing higher prices to the foreign producer, the devalued Canadian dollar adds a further substantial increase to the consumer's ultimate cost.

I can fully appreciate the concern of this committee over food costs; and I know the housewife is concerned, and justifiably so. I too am concerned, as an individual and as a businessman. Food is a basic essential. The shrinking food dollar means hardships for many people.

Gentlemen, let me assure you that high prices are no stimulant to business. Each price hike puts more products out of the reach of more consumers. The supermarkets' success is dependent on big volume and quick turnover. There is no future in slow-moving merchandise. There is no profit in lost sales.

In closing, I would like to thank this committee for the privilege and opportunity of presenting this brief on behalf of Loblaws, and we will be very pleased to answer any questions which the members of the committee may wish to ask.

Co-Chairman Mr. Basford: Thank you very much, Mr. Meech. Now that you have caught your breath, I will call on Mr. McCutcheon, who is the first on my list.

Mr. McCutcheon: Thank you, Mr. Chairman. I did not realize I was so early this morning.

This is a most comprehensive brief, and I would like to ask a question in connection with your pricing in various districts. Let me preface that by pointing out that I assume you have stores in what are normally called low rent districts and stores in high rent districts. Take meat, for example, do the same prices prevail in both stores on top cuts and the bottom cuts?

Mr. Meech: Mr. McCutcheon, I will let Mr. Agnew, the man who actually sets the prices, answer that question.

Mr. Alex Agnew, Vice-President in Charge of Meats, Loblaw Groceterias Co. Limited: Across Ontario we have the same price, with the exception of Ottawa,

where we buy locally and they are set locally on a local basis on what we are paying for merchandise in Ottawa and district. Prices are slightly higher here than in the rest of Ontario.

Mr. McCutcheon: My question was brought on by watching last night a public affairs program in which it was alleged that in the high rent districts the prices of meats were all high, but down in the low rent districts it was alleged that the prices of the cheaper cuts—say, hamburger that the poor working people were forced to buy—were much higher, in relation. This was a shocking thing to me when I heard this last night.

Mr. Agnew: Hamburg can be made to sell at any price.

Mr. McCutcheon: Would you elaborate?

Mr. Agnew: If you want lean hamburg, and a lot of retailers—not a lot, but some retailers—sell hamburg fairly fat, and you could not fool a blind person with that hamburg. Hamburg, to me, covers a lot of territory when you refer to the prices of hamburg.

Mr. McCutcheon: I do not want to belabour this point but this television program last night intimated that in the high rent areas good meat was quite expensive, and in the low rent areas the same meat was a little cheaper, with the exception of bologna and hamburg, which was much more expensive.

Mr. Agnew: We have not got that situation. Maybe one store is laying all the trimmings on hamburg, but that is not general.

Mr. Meech: Mr. McCutcheon, I should like to answer that and say that as a matter of our general store policy we would not permit a differential of that character. We would not permit it. There is no differential in selling the same cuts just because one section of the community is more affluent than another. That would be absolutely abhorrent to our principles.

Mr. McCutcheon: Thank you. Now, might I ask the meat specialist what exactly you do to Proten meat that other merchants do not?

Mr. Agnew: Swift Canadian have a patent on that. Proten is papaya juice injected into the animal. Swift Canadian have the rights to it.

Mr. McCutcheon: It is a chemical process?

Mr. Agnew: Not chemical—fruit. It is a fruit juice. It is not a chemical.

Mr. McCutcheon: I see. Is this done to tenderize the meat, or to flavour it?

Mr. Agnew: Here are all the facts you need to know about Proten beef. We have a few copies of this that we can pass around.

Mr. Meech: Just explain to Mr. McCutcheon briefly what it is.

Mr. Agnew: It is to make the meat tender.

Mr. Huffman: The tenderizing does not take place until after it is cooked.

Mr. Agnew: That is right. It has to reach a temperature of 110 degrees.

Mr. Meech: I understand that this process involves the injection of this fruit juice into the animal immediately before it is killed. In that way they have discovered that the tissues and other elements that make beef resistant to your eating are broken down without any loss of flavour.

Mr. Agnew: It uniformly tenderizes the meat throughout the carcass.

Mr. McCutcheon: Would it have the effect of making more edible the cheaper cuts of meat?

Mr. Agnew: Yes, it would, especially those cuts that are for people who are dieting—fellows like me have to diet, you know.

Mr. McCutcheon: Does this add appreciatively to the cost?

Mr. Agnew: No, sir, not as to value.

Mr. Meech: There is no waste left on the plate.

Mr. McCUTCHEON: Percentagewise, does it?

Mr. AGNEW: No, sir.

Mr. George Huffman, Director and Vice-President, Loblaw Groceterias Co., Limited: You might say that it is a tenderizer that has been on the market for a number of years in a liquid form which was spread over the meat. This is a new method—an injection method.

Mr. McCUTCHEON: Mr. Meech, at page 7 of this brief you refer to the very large increase in your property taxes. I know you want to be fair about this, and I will ask you whether there have been additions or improvements to these properties in this eight-year period that would look after some of that increase?

Mr. MEECH: Not to the warehouse, but I must inquire about the stores.

Specifically, no building improvements; just improvements in renovation and equipment.

Mr. McCUTCHEON: Thank you. How much value added to your sales is required to cover your labour costs as of 1961 versus 1966?

Mr. DAVIDSON: I am not sure that I understand that question.

Mr. McCUTCHEON: In your brief it is expressed as a percentage, or a factor of some type, in relation to your value—what were your labour costs in 1961 as compared to 1966? What I am trying to establish in my own mind is whether your increased labour costs have been a large contributing factor to your cost of operation.

Mr. DAVIDSON: They certainly have been a contributing factor in no small measure to the cost of our operation, but if you attempt, in a diversified industry like ours—which includes warehousing, manufacturing, and trucking in addition to our retail stores—to assess just exactly what individual labour increases do in these many forms then I would say it would be an almost impossible task to endeavour to break down that kind of information. We can certainly show you, and will be pleased to show you—as we attempt to demonstrate in the figures we supplied—the differences in the various areas of our business from what they were in 1960 up to 1966.

Mr. SMITH: I have a supplementary question, Mr. Chairman.

Would you say how much your labour costs are as a percentage of your sales? In relation to your sales can you say that your labour costs were such and such? This would give us some idea of what the increased productivity of your labour force might be.

Mr. DAVIDSON: Well, sir, with respect to our company, at least, this could be a very deceptive figure to this committee. I am sure we will attempt to clarify whatever it is you require of us, but in respect of our company the total labour costs, expressed as a percentage of sales, could be very deceptive. For example, a number of our manufacturing operations which we used to perform in our own plants, the labour costs of which were included in our overall total labour costs, have been discontinued, and the merchandise is now purchased in a different form. The manufacturing and processing is no longer done by our company in its own plants. Consequently, that labour cost disappears from our labour total, but those products come to us now at a cost which, of course, includes the costs that were formerly part of our labour total.

Additionally, in our company we have made changes from time to time in the sources of our supply. Some of this merchandise used to come through our warehouses, and the labour costs of handling it and the transporting of it by our own fleet of trucks would be included in our total labour costs. These commodities are now secured in fairly large numbers directly from wholesalers, particularly in areas where distance is a big factor, and where a local wholesaler

can supply the merchandise directly to our store at a price lower than the cost to us if we bought them, warehoused them and transported them ourselves.

So, that kind of figure would be very deceptive, but I am sure our accountants will try to supply you with whatever you need.

Mr. McCutcheon: Thank you.

Mr. Meech: Mr. McCutcheon, we will supply you with that information, but I would observe that the company before you today is not a simple company in the food business, such as you have had experience with before. We are a very complex organization. You might say that Loblaws is a holding company with many companies within it, and to break down figures of this nature encompasses quite a lot of accounting. Perhaps, it can be done, and we will do it for you. We will get the question from the transcript, and see that the answer you want is provided.

Mr. McCutcheon: Thank you very kindly. I have here a clipping dated Wednesday, October 12, 1966. I wonder if you would care to comment on it, or make a forecast—well, perhaps I should not ask you to make a forecast. This is datelined Chicago and it is headed: "Supermarkets are Slashing Prices". It goes on to point out that a large can of tomatoes, which was 44 cents previously, is now 37 cents; that salad dressing which is 33 cents now, was 39 cents. One of the other witnesses before us gave us prices of salad dressing, for example, of 69 cents for a brand name and 59 cents for a store brand. Do any of your companies operate in the Chicago market, and do you think that this reduction in food prices in the Chicago area will be coming to Canada?

Mr. Meech: I do not think so, Mr. McCutcheon. It is a special local situation to that great city. A very important company, the Jewel Company—it is ironic, but when we had a division of Loblaws Company in Chicago, and Mr. Loblaw was alive, we gave up that business because of high rents, labour, depression, and sold it to the Jewel Company. Now we find ourselves owning the National Tea Company, which operates in Chicago all through the Middle West and down to New Orleans, and a local price war has developed in Chicago between the Jewel and all the other chains in Chicago. It followed pretty well a pattern established in Denver where all the chains had a price war. The housewives were discontented with the high prices and it resulted in a chain war battle where they were selling pretty well around the cost factor. It cannot go on too long, in my opinion, and I do not think the practice of a chain war would come to Canada. We seem to have orderly-minded statesmen at the head of our supermarket businesses that feel a responsibility of conducting business rightly and on a basis of permanence. So to answer your question specifically, I do not think the falling prices which you noticed in the newspaper could happen here in Canada.

Mr. McCutcheon: Why?

Mr. Meech: It would be very disturbing to all companies to take the losses involved.

Mr. McCutcheon: You inferred that there was dissatisfaction in the Chicago area evidenced by the housewives.

Mr. Meech: No, I said Denver.

Mr. McCutcheon: In Denver.

Mr. Meech: It was a local situation in Denver, and you may have read it in the newspapers. We are going through much the same feeling here, and I have no quarrel with that. I think it is a wonderful thing for housewives to be heard and to understand just what is happening to prices; but I do think that the housewives should remember that the chain store supermarket has done an awful lot for her in establishing cleanliness in stores, establishing quick distribution of farm products and bringing out a lower rate of prices that did

not prevail when there were not such strong groups to do the services which in our type of civilization is demanded. I think housewives on reflection, are truly grateful for the service rendered by the chain store supermarkets.

Mr. McCUTCHEON: One final question, Mr. Chairman. This headline—not a headline—"Thousands and thousands win exciting T.V. bingo, 22 Pontiacs". This is Loblaws' advertisement. "Wins Pontiac over $3,000. Colour T.V.", etc. etc. Now, I know you have referred to this in your brief, but it seems to me that the desire of people to survive and to fill their stomachs is the greatest motivating force in the world to go out and buy groceries without this necessity. Isn't this an expense, an additional expense, the consumer is forced to pay?

Mr. MEECH: I think Mr. Huffman, who has been in this business for over 40 years and grown up with it, and knows why that particular ad was placed in the newspaper knows why it has a competitive strategy, you might say, in the conduct of our business, could give you an answer that would indicate to you gentlemen that to stay in business, meet your payroll, you have to resort to something exciting at times.

Mr. McCUTCHEON: This is exciting, but is this "thousands and thousands win" a factor of additional expense to the consumer?

The CO-CHAIRMAN: It is not exciting if you don't win a car.

Mr. HUFFMAN: I should like to clear up one point. I do not think I am as good as Mr. Meech points out that I am; but with respect to your question of the advertisement you have there, I would first point out that we are not alone in that type of advertising.

Mr. McCUTCHEON: Oh, no.

Mr. HUFFMAN: There was mention made of the conduct of those promotions, and so on, in the early part of the brief. I always like to think if it was not good for us as a business we would not do it. Another thing, that makes it good for business is that it keeps our customers happy and brings more people to the stores, and thereby more sales; and of course we live on sales—that is all we have. We do not feel, and certainly, I can assure you it is not reflected in the retail prices, because as the brief mentioned, I am sure it is quite a fact that there is a certain amount of advertising appropriation for the purpose of promotion in all chain stores, or any other business. This happens to be one means, becoming part of that over all appropriation for advertising.

Mr. McCUTCHEON: This is fine. Now, we have "Free—24 Peugeot station wagons". This is with another store. And we have got another one here, "100 winners"—"100 winners"; plus "Go to the races"—is one here. Where does it come from? Either from your profits or out of the producer, or out of the consumer, or out of everybody? Somebody has to pay for this. Go ahead, Senator.

Co-Chairman Senator CROLL: Who pays for this, is the question you want answered. My question was only this, that for days we have been looking for the mythical man or the mythical somebody who pays for all these gimmicks. That is what we want to know. In the end, isn't it the consumer?

Mr. HUFFMAN: Let us say the consumer pays for everything, yes, like the newspaper advertising, everything done in a promotional way, flyers, newspaper and radio advertising. Obviously somebody has to pay for that. That goes into the cost of the operation and whatever the merchandise is being sold for, whether it be food, or anything else. Advertising of this type becomes part of that; but this type of promotion becomes, as far as we are concerned—I can't speak for anybody else—what we consider a self-liquidating part of our operation as far as promotions are concerned; and at the same time we have a large number of our suppliers who subscribe to this type of promotion and like to join with us, because it helps to promote the sale of a particular merchandise.

Mr. McCUTCHEON: Well, if all supermarkets got out of races, T.V. bingo, and all the gimmickery, and at your next meeting decided not to do it, to cut it out, could you not effect some slight saving to the ultimate consumer?

Mr. HUFFMAN: Certainly if all the supermarkets did that in a given area, decided to get out of it, it would be foolish for me to say there would not be, let us say, a chunk of money which now wasn't going to be spent for that purpose which would be saved, but where it would be spent, I cannot answer that question.

Mr. McCUTCHEON: Well, does it have to be spent?

Mr. HUFFMAN: Well, for today's merchandising, I would say, yes, you can't get away from competition. I think somebody is going to promote in some way, there is no question about that. In this way of living today you must maintain and promote sales, you simply have to do it, and if you cut it out, you are simply going to go into some other form of promotional work.

Mr. McCUTCHEON: If my wife needs a loaf of bread it is because we are hungry for a loaf of bread, and we don't need that other motivation, I think.

Co-Chairman Mr. BASFORD: Mr. Huffman, some of the other companies which appeared before us—and I particularly recall Dominion Stores—filed a statement of advertising and promotion costs. I wonder if your company is prepared to file comparable statements.

Mr. HUFFMAN: I have a note here from one of our delegation, who points out that while some of the chain stores do this, there are many other types of business which do the same type of promoting, which all adds to the cost, if such exists. The gas stations, for example, are doing the same thing right now. It adds to the cost.

Co-Chairman Mr. BASFORD: We might get to gas stations later.

Mr. HUFFMAN: I am drawing a comparison between forms of industry.

Co-Chairman Senator CROLL: I want to put something on record and then ask questions on it. On October 18, Mr. Douglas Williams, Chairman, Ontario Food Council—I think reference was made to him—spoke to 300 people at the C.N.E. building and said:

> Consumer thinking will have to go back beyond many of the retail practices of today, extravagant promotion, the mad rush for trading stamps, the premiums, the so-called advertised specials, the games, the contests, the cent-off deals, gimmicks in all of their forms—all designed to entice the gullible customer and all of which she pays for heavily out of her pocketbook.

On page 18 of your brief you give a breakdown of your publicity costs. You started into this gimmick business in 1960. In 1961, the publicity cost was .8%. In 1966 it was 1.1%. If my multiplication and addition is right—I am not in the new arithmetic game—I think it is 28 per cent increase in cost.

Let me take you one step further. The A & P, giving evidence before this committee, on its opening day of hearings of food chains, showed a survey made by an independent pricing service, on September 14, 1966. The A & P does not deal in premium stamps and gimmicks, and they said so here. The pricing service indicated that, on 2,364 of Loblaws that were checked, of comparable items, with A & P, Dominion and Steinbergs, in 683, and in 29 of A & P, the prices were the same.

In 1,498, Loblaws prices were 63 per cent higher; and in 183 they were 8 per cent lower.

Senator McDONALD: Sixty-three per cent of the items, were higher in Loblaws.

Co-Chairman Senator CROLL: You are quite right. Sixty-three per cent were higher and 8 per cent lower. As I recall, they spent less than 1 per cent on advertising, and have for some time. Would you like to comment on that?

Mr. H. Shelly, Vice-President and General Manager, Loblaw Groceterias Co. Limited: Senator Croll, that same company uses contests and also stamps, in other cities.

Co-Chairman Senator CROLL: Not in Canada.

Mr. SHELLY: Not in Canada, but I see their advertisements all the time and in some places they use both at the same time. I think the answer is that these are two advertising merchandising philosophies, they both have their appeal to certain people. It so happens that in this particular area they do not use promotions of this type.

As for the 63 per cent that you mention, I do not think it is fair for us to have to comment, because we do not know how accurate that sort of comparison was. There are many things easily overlooked, which distort the comparison, such as quality. In the case of quality there is, for example, the trim of meat. We pride ourselves on the very good trim that we have. That is one reason why we give double back money guarantee.

Co-Chairman Senator CROLL: The survey was made by Ambler Pricing Service. I was given to understand they are an independent pricing organization in the business of pricing for you or anybody, and they have quite a good reputation as far as I know.

Mr. SHELLY: We are not in a position to say how accurate the comparison is, regardless of who did it.

Senator McDONALD: Does your company use the services of Ambler Pricing Service?

Mr. HUFFMAN: We subscribe to that, yes.

Senator McDONALD: Could you supply us with the result of a similar survey that Ambler have taken on your behalf, recently?

Mr. HUFFMAN: That could be done.

Senator McDONALD: As close as possible to September 14, 1966.

Co-Chairman Mr. BASFORD: The senator has asked for a comparable statement.

Mr. HUFFMAN: We subscribe to their book.

Co-Chairman Mr. BASFORD: The senator has asked for a comparable statement, which I believe you have undertaken to supply.

Mr. HUFFMAN: We would have to do that.

Mr. MEECH: We have not had a survey by this company, either recently or ever. We just subscribe to their literature and information. But if you wish us to take a survey, we can do that. I do not think we should—because I think it would impeach ourselves with the fact that we would put in too many specials.

Co-Chairman Mr. BASFORD: I am not going to insist on it, if Senator McDonald does not wish to do so.

Senator McDONALD: I understand that the list of articles priced by Amblers' was taken from D.B.S. Was this not the evidence by A & P?

Co-Chairman Mr. BASFORD: I do not recall that point exactly.

Senator DESCHATELETS: I understood this witness to say that the organization of his company is a rather complex one. I would like to know, if you have within your organization some affiliate company who would act as wholesalers, between the retail organization and the primary producer.

Mr. MEECH: Would you please repeat the question?

Senator DESCHATELETS: We had a company before us a few days ago which had a very clear organization—they were retailers and they were buying their own products, whether from the primary producers or other concerns. I would like to know if you are retailers?

Mr. HUFFMAN: That is right.

Senator DESCHATELETS: Do you have in your organization any affiliated organization looking after your supply?

Mr. HUFFMAN: No, we do not. We do all our own buying. There is the odd place in Ontario where it is more economic to purchase from a wholesaler—for instance, up in Sudbury and Sault Ste. Marie—but other than that we do all our own buying.

Senator DESCHATELETS: You say that at this time it is rather difficult to keep with the price, that there is a pressure for increases. I understand that you are paying, as anyone else, the added taxes—increased transportation costs, and so forth. I would like to know if we can say that you are paying right now, and over the last year, increased prices to the primary producers, across the line.

Mr. E. Rainey, Director of Produce Operations; Loblaw Groceterias Co. Limited: As regards primary producers in this particular end of the business, the comparison would not be worthwhile, because, as we explained, owing to the drought this year, we are paying to the primary producer as much as $4.50 a case for cabbage. If you want to take the same period for last year, we did not experience any drought last year and we were not paying any more than $2 a case. However, the comparison is not on a parallel line; because of the intervening weather periods and other factors, it is not a comparable issue to the retailer as far as the primary producer is concerned.

Senator DESCHATELETS: Now, sir, I would like you to refer to page 17 of your brief where you say that prices are determined by the law of supply and demand and "the free competition which is very active in our industry."

I would like to know exactly what you mean by "free competition." I can see where you would mention free competition, if you are comparing your company to other supermarkets. In my view, this would be free competition.

Now, I am going to advance another point, and if I am wrong I wish you would tell me. My impression is that supermarkets such as yours are adjusting their retail prices to the prices charged by the independent retailers. I will give you just a few details of what I am getting at. The independent retailer has no volume of private sales; he has no purchasing power; he has no storage facilities; and, still, if we compare your prices with his prices, there is not much difference, item by item. And yet you are buying without paying for any intermediaries; you have the storage facilities; you have the volume and the purchasing power; and my impression is that there is nothing you would like better than to retain the present situation, wherein the independent retailer sets the prices.

I would like to have your comments on that?

Mr. MEECH: With all respect, I think the position is in reverse. I think the independent merchant fixes his prices on what the chains, on a competitive basis, ask for. He can afford to do that because he is independent; he has none of the wonderful labour set-ups that most of the chains are very proud of: their pension plans, their widows' and orphans' benefits; and, I suppose, the chains, if you were to inquire into the matter, and we are certainly proud of ours, have the finest set-up for their employees that you would want to have in the merchandising field.

However, an independent merchant does not need to provide those things, because he chooses his help and he also chooses the help that will do him the

most good; whereas the large company employs a pattern of labour. You often find that you get an employee who is a member of the union and he is protected and he stays there. An independent may not employ that particular person. He can get the employee he likes, because he can afford to pay him more and most likely will pay him more. But his costs are small compared to what the overall chain picture is, and the evidence of that is in the early days of the development of the supermarket.

We found that the independent merchant had, you might say, scouts out to see where the chain store was going to be located in any given community, and he would try to buy next door to the chain store, because he knew that he had a ready market and could meet all prices that would be there and develop a good business.

I know this from when I was a boy. My father was a butcher and we had a very fine family business on Parliament Street in Toronto. Along came the William Davis Company, one of the early chains. I remember my father coming in and saying, "Mother, we are ruined. This big chain will just put us out of business. They will drop their prices so that I can't stay in business." And we had a hard time at the time thinking about it.

Well, my father flourished; he did well beside the chain store; it was the finest thing that could have happened. And that pattern still persists all through Ontario and through the United States.

Senator DESCHATELETS: If you permit me there were no supermarkets then.

Mr. MEECH: There were not, but there were meat-grocery chains, and there was the embryo of the supermarket. You will recall the William Davis Company, although I do not know if you had a counterpart for it in Quebec. They were an early chain in the food distribution business.

Senator DESCHATELETS: I have a third question, Mr. Chairman, if you will permit me.

Co-Chairman Mr. BASFORD: I wonder if you would take care, senator, to speak into the microphone.

Senator DESCHATELETS: Yes. On page 22 of your brief, sir, you say about meat prices that they represent $\frac{1}{3}$ of the sales of the retail supermarket. Could you, very briefly, tell us how you get your supplies of meat? For instance, no doubt you buy western beef.

Mr. MEECH: We buy through the packers.

Senator DESCHATELETS: You buy through the packers.

Mr. MEECH: Yes. I would like our meat expert to answer that.

Senator DESCHATELETS: Perhaps I could ask another question at the same time to cover what I have in mind. Would it be possible to have a list of your prices on meats? I would like your cost prices for 1964, '65 and '66 for the items you mention on page 24. I would also like your mark-up for these three years. I understand that this would be an average.

Mr. AGNEW: Excuse me, but the items listed there comprise the tonnage breakdown of all meats sold in our stores.

Senator DESCHATELETS: I know that it is on a tonnage basis.

Mr. MEECH: You want a complete price list of everything, in other words?

Mr. AGNEW: This is everything.

Senator DESCHATELETS: Well, it does not satisfy me. I would like to have your cost price and your retail price.

Mr. AGNEW: On beef?

Senator DESCHATELETS: No, for all these items on page 24.

Mr. AGNEW: That is a complete list of all meats.

Co-Chairman Mr. BASFORD: I can see the value, senator, of obtaining such a statement for beef, veal, etc., but it would be very difficult and not very meaningful to the Committee to have a price list on smoked meats, for example, which is a pretty diverse line.

Senator DESCHATELETS: Well, I have just one last question, then, Mr. Chairman. The witnesses said that their firm is interested in big promotional sales which are adding to the volume of sales, and we understand this. However, at this time, when the consumers have expressed their concern at the retail prices, would a firm like yours not think that a crash program of reduced prices would be the biggest promotion you could imagine? Does your company not think of taking a lead in that direction?

Mr. MEECH: We would certainly like to give some leadership to a program of reducing prices, and we are hoping that, arising out of your deliberations here, where you meet the whole segment of the retail and wholesale food distribution business, that some plan can arise that can possibly bring about uniformity in the conduct of business, or at least more so than what we have today, so that companies will be enabled to operate under the same level of costs.

This could come by legislation. We do not want too much order or regulation in a free enterprise economy such as we are proud of here in Canada, but certain measures of regulation could be introduced which would be most satisfactory to the housewife by removing these specialized games and these give-aways, or, for that matter, even stamps.

We are very open minded on anything that will be a program for the good of our country.

Mr. McCUTCHEON: Mr. Chairman, may I ask a supplementary question?

Co-Chairman Mr. BASFORD: If it is every brief and snappy.

Mr. McCUTCHEON: It will be brief; it has to do with meat products. One of the previous witnesses here pointed out that during 1966 they had to pay an increased price, for example, for pork loins—to mention one—during the course of the year. Yet accordingly to previous evidence given before this committee the price paid to the producer during this period of time had dropped. I have the figures here, but I shall not belabour you with that. Did you have the same experience of increased prices for your beef from the packers?

Mr. AGNEW: In what period?

Mr. McCUTCHEON: During 1965. Let me quote for you—in June the price for choice steers in Toronto was 26.86. That was in June 1965, and in June 1966 they had dropped to 26.08. Yet the price at the retail and apparently at the wholesale level had increased during that period of time.

Again with pork, if I might just read this, and I am sorry to take up the time of the committee—but in June of 1965 Grade A carcasses were 34.81 and 38.39 in June of 1966. Then in September 1965 they were 36.88 and in September of 1966 they were 33.92. Yet the retail prices in both of these products were away up, according to the D.B.S. figures, at the retail level. The other witnesses said they were up at the wholesale level. Why is it that the price to the producer dropped while the price to the retailer and wholesaler went away up?

Mr. AGNEW: I would have to check on that and submit the figures later. We do not buy live cattle or hogs. We buy cuts. I can give you the figures on cuts.

Mr. McCUTCHEON: But I would like—

Co-Chairman Mr. BASFORD: I have you down on the list again, Mr. McCutcheon. This was a supplementary question. Mr. Saltsman.

Mr. SALTSMAN: Mr. Chairman, I would like to return to this question of advertising. I was quite interested in it and in some of the comments made that

it was necessary for firms to maintain their advertising budgets in the face of the other promotions going on. Is this correct? As competitors do you have to compete in this particular field? I also gathered from what you said that some regulation on advertising that would apply to all people in the industry would be welcomed as the way to bring some order into the situation. Is this correct?

Mr. MEECH: Yes, if it applied to all merchants it would be a good thing.

Mr. SALTSMAN: Is this because you feel that advertising, under some circumstances, can raise the cost of goods and services to the consumer?

Mr. MEECH: Well, without advertising you would not sell your product. The newspapers are our strongest backbone in the promotion of our business.

Mr. SALTSMAN: Do you sell your products because you advertise or because people need food?

Mr. MEECH: Of course they need food, but by bringing to their attention the fact that you have lamb in season right now as well as pork at its best or beef at its best, you put the idea into the housewife's mind that now would be a good time to purchase such items. Therefore you bring that to her attention.

Mr. SALTSMAN: I think all would agree that there is a very legitimate role for advertising in the sense of informing the consumer of specials or seasonal opportunities of this type. But how much of the advertising you do is informative and how much is promotional in scope? By this I mean that giving away a car does not tell the consumer the prices applying on any particular day.

Mr. MEECH: It is a gimmick like all these, and it is the product of a fertile imagination on the part of the merchandiser who wants to get ahead in competitive strategy. I think many merchants would like to see these abandoned.

Mr. SALTSMAN: Do you see the possibility of differentiating between the kind of advertising that is helpful to the consumer and the kind that does not help the consumer in terms of making a choice?

Mr. MEECH: The public fancy is also involved here. A lot of people are anxious to play games and have these contests. It is all part of their present-day life to engage in these adventurous things. It is a challenge.

Mr. SALTSMAN: If this is the case, should we not legalize gambling rather than do it through the supermarkets? In that case I would not have to pay for those who wish to gamble. As one of my colleagues said when he went in to a gas station, "How much is the price of gas without a trip to Florida?"

Mr. MEECH: Have you ever considered how dull it would be for a housewife to go into a store and see nothing but price tickets and a display of produce? It would lose all the romance of life.

Mr. SALTSMAN: Why not give the customer the opportunity to make the choice?

Mr. MEECH: I think if this committee develops a rearch department which could bring in some sort of idea that would be uniform, I am sure we might all agree, but we would all have to agree before we abandon what has been proven to be a successful medium of sales.

Mr. SALTSMAN: I appreciate your testimony very much, and I think it has been very frank and very much to the point. It has given us a new insight into the problems of advertising within the trade as it is.

Now I would like to refer to page 13 dealing with retail markups. The prices on which these markups are based are not shown. Can we assume that the actual prices—just ignoring the markup for the time being—that the actual prices have not been declining over that period of time?

Mr. HUFFMAN: You could assume the prices have not declined. I would not want to say that there are not one or two cases where this has happened.

Mr. SALTSMAN: But as a general rule they have not been declining and possibly have been increasing on these items over that period of time?

Mr. HUFFMAN: That is right.

Mr. SALTSMAN: I would like to draw your attention to the fact that of all those items there are only five in which the markup has been reduced while on the other hand there are 12 items on which the markups have been increased. Then on the understanding that the prices have at least remained constant or have increased to some extent, you have not only had an increase in price but an increase in markup. How would you explain that situation? Why should these prices be marked up higher than they have been in the past?

Mr. HUFFMAN: Well, Mr. Saltsman, this happens to be, as I am sure you understand, a list out of many thousands of lines. It has been prepared here because they are good lines for comparison purposes. They are popular lines and are in demand. But if you refer to the previous part of the brief where our costs through taxes are increased, you will see that the cost of labour and other various factors have increased to put prices up. I think that is the reason for tits being necessary through the proper mix of merchandise without being specific on any one line that you must get more on one line where you cannot get it on another.

It is a matter of when you are working with six thousand or seven thousand lines of merchandising, it is very difficult to take certain lines and explain why one might be a little higher in gross whereas some others have gone down. As a matter of fact, in some cases those that have gone down are lines which are much larger in volume.

Mr. SALTSMAN: On the question of your rising costs. This has been a good brief in many ways, but it has a very serious flaw compared to some other briefs that have been presented to us, in the sense that you have not given us the percentage increases in your costs, as other briefs have done.

One reference was made to labour costs. Your brief seems to come down rather heavily on labour as a reason for the increase in costs. You have given a graph showing the percentage increase in certain fields of your labour costs, but we do not have—and I think it is very significant to have—how your labour costs as a percentage of your gross sales have behaved. I gather you claim your operation is not amenable to this type of information. Is your operation so much different from everybody else's operation that these figures would not be meaningful to us?

Mr. DAVIDSON: I think there are considerable differences in our company compared to most of the major chains, but we took full cognizance of the question Mr. McCutcheon asked, and we will attempt to give you the figures requested of us, in the way you requested them, possibly with some footnotes of explanation which will clarify the differences as we see them. We can go into complete detail of salaries, of everyone of the employees' rate structures we have in our many labour contracts. In most chains I think you will find they probably have three or four or five contracts. In our company we have 16, and 23 different contracts altogether; but we will attempt to comply with your request, as you have posed it together with Mr. McCutcheon.

Mr. SALTSMAN: I think the significant thing to this committee in this respect is that we know what your labour and operating costs are as a percentage of your sales, and not what the absolute wage might be, because that can frequently be related to increased or decreased productivity. So, this is not a meaningful figure.

Co-Chairman Mr. BASFORD: The company has undertaken to supply what they can.

Mr. SALTSMAN: I would like to return to these mark-ups. The figures we have on employees' salaries and welfare benefits, the figures given by companies that appeared before us—one company shows a decline in that as a percentage of sales, and the other one shows a slight increase over a period as a percentage of sales. I would like to compare this with your advertising costs which over the same period have increased by almost 50 per cent as a percentage of sales.

Getting back to page 13, the table headed "Retail mark-ups," if we examine those items which have gone up—and I would like to mention them by name—in almost every instance they are a nationally well-known brand: Campbell's Tomato Soup, up from 16 per cent to 18.8 per cent; vinegar—that is not a national brand, I do not think; Nabisco Shredded Wheat, from 21 to 21.2 per cent; Aylmer Choice Cream Style Corn, from 21 to 21.4 per cent; Five Roses Flour, from 15.5 to 16.5 per cent: Duncan Hines cake mixes, from 18.5 to 20 per cent; White Swan Toilet Tissue, from 22.6 to 24 per cent; Heinz Ketchup, from 20.8 per cent to 22 per cent; Pride of Arabia Instant Coffee, from 20.5 to 21 per cent; Pride of Arabia Regular Coffee, from 14.1 to 15 per cent—is that your own brand, Pride of Arabia?

Mr. SHELLY: Yes.

Mr. SALTSMAN: Sovereign Red Sockeye Salmon, from 15.3 to 20.7—is that a store brand too?

Mr. SHELLY: It is a controlled brand.

Mr. SALTSMAN: And Niblets Fancy Whole Kernel Corn, from 19.3 to 22.8 per cent.

The ones that are down are: Eastlake Choice Tomatoes—is that a store brand or a small packer?

Mr. HUFFMAN: That is a small packer.

Mr. SALTSMAN: Can there be any implication that under the circumstances a small packer to some extent is facing far more competitive pressures than perhaps the major or the major advertisers of the major brands, in the sense that his mark-up or the mark-up on his stock is going down and, I presume, the mark-up on the others is going up? Is there any relationship?

Mr. HUFFMAN: There would be no relationship at all.

Mr. SMITH: A supplementary question, Mr. Chairman.

Does your company have a policy within a range of products of taking generally a lower mark-up on your house brands than on nationally advertised, or perhaps not nationally advertised but general brands that are sold otherwise?

Mr. HUFFMAN: Not necessarily, sir.

Mr. SMITH: I do not quite understand what "not necessarily" means.

Mr. HUFFMAN: What I mean to say is that in some cases it might be the house brands had a structure higher as far as gross profit was concerned though they might be selling 10 or 15 cents less than the nationally advertised brands. It might be it is worked out on the basis that we feel we could keep well below the national brand with a good run to produce higher gross profits. One might be 18 and the other 17½ per cent. Also competition enters into that because actually lack of merchandise competition plays a large part in this, including house brands.

Mr. SMITH: You say you have no policy of taking a lower mark-up on your house brands in order to reduce prices?

Mr. HUFFMAN: Yes, generally speaking, but sometimes this works out that as the price goes down in proportion your gross becomes greater, if you know what I mean.

Mr. SMITH: No.

Mr. SHELLY: It is quite technical.

Co-Chairman Mr. BASFORD: Mr. Smith, I have eleven names on the list, and I will put your name at the bottom.

Mr. SMITH: You do not need to put my name at the bottom or anywhere else. I was trying to ask a short supplementary, and Mr. Huffman seems to have confused the question.

Co-Chairman Mr. BASFORD: I have eleven names on the list, and I would remind Mr. Saltsman of that, particularly.

Mr. SALTSMAN: Thank you very much for your timely reminder, Mr. Chairman.

I would like to ask a very straighforward question. Has there been any tendency, on the part of national brand manufacturers, to try to get retail price maintenance in the supermarket field, to try to control the price at which you sell their products?

Mr. HUFFMAN: I would say there has been absolutely none, not to our knowledge. Is that right, Mr. Astle?

Mr. George Astle, Merchandising Manager, Grocery Division, Loblaw's Groceterias Limited: That is quite right.

Mr. SALTSMAN: I would like to refer to an article in the *Globe and Mail* of Saturday, October 15 last, written by Marilyn Cooper, headed, "Housewives need stamina to find bargains in food", in which she did comparison price shopping in six supermarkets, and I would like to read into the record the results of her comparison shopping. Nescafé, large jar, six supermarkets—it was not available at one, but in each case the price was $1.69 to the penny. There is absolutely no variation in any of those stores. Lipton's Noodle Soup, with one exception the price was two for 27 cents, and the one exception was two for 29 cents. Ivory soap, medium, with one exception the prices were all two for 33 cents, and the one exception was two for 35 cents. In Sunlight liquid detergent, the prices, with no exception, were all 31 cents.

I would appreciate your comments on how such a finely tuned competitive system manages to arrive at the same prices, or so close to the same prices, especially on national brands.

Mr. SHELLY: Mr. Saltsman, I think that points up as clearly as anything could just how competitive the retail food business is. We do watch each other.

Mr. SALTSMAN: You feel this price is dictated by the competitive forces? This is what determines that the prices remain the same in all these stores?

Mr. SHELLY: I take it you are wondering whether the manufacturer was on the scene in the setting of those prices. The answer was as just given—that is certainly not so.

Mr. SALTSMAN: How do you, as a store, determine how to price Sunlight soap?

Mr. MEECH: Mr. Saltsman, you can have an ad. all set for the day on which it is to appear, and in some mysterious way you hear that someone is going to sell it at one cent less. There has not been any change in your policy, but you cannot let them have that advantage. So, these prices are fixed by usage, and not by any conference. None of the heads of the chains would think of having a conference in respect of prices. They would not think of it.

Mr. SALTSMAN: I would be prepared, to a large extent, to accept your explanation of this, but I would like to ask what this makes of the so-called competitive system that we have. In other words, how is this system so competitive when this practice prevails? Might not the Government just as well establish these prices on behalf of the consumer?

Mr. MEECH: They would not do it as well.

Mr. SALTSMAN: That all depends from whose point of view you say that.

Senator O'LEARY: I should like to refer to page 9 of your submission, and to the twelve items that are listed there with increased costs. I do not question any of them except number 10 which reads: "Maintenance inspection service on our cash registers has increased by 40 per cent". Is the basic reason for this increase the number of cash registers you are using now due to your expansion? In other words, my question boils down to this: Has the maintenance and inspection service per unit increased efficiently?

Mr. SHELLY: Senator O'Leary, I am quite sure that the answer is as I am going to state it, that the cash registers are serviced on a contract basis, and this has no relationship to the number of cash registers serviced. It is strictly a contract based on the number of cash registers, and it is up 40 per cent.

Senator O'LEARY: Would it not be logical to think that with your increased volume you would get a better contract for service per unit?

Mr. SHELLY: These contracts are made with the manufacturers of the units, and I do not think they have more than one rate.

Senator O'LEARY: Volume does not affect it?

Mr. SHELLY: I do not think so. I do not know, but I do not think so.

Mr. HUFFMAN: We get the best rate we think we can get.

Mr. SHELLY: Yes, I should add that.

Senator O'LEARY: But, the basic reason for the increase of 40 per cent is the number of units. I contend that. Do you oppose that view?

Mr. SHELLY: I oppose that view. I do not think this has anything to do with the number of units we might have had three years ago as against the number we have today. It is a cash register maintenance contract, and it is up 40 per cent.

Senator O'LEARY: I would ask you to check that.

Mr. SHELLY: Certainly.

Senator O'LEARY: I refer you to page 10 of your submission, to hourly wage rates. This does not affect volume because these are hourly wage rates. I notice that warehousemen are up 61.3 per cent. What is the explanation for the large increase in that particular area?

Mr. DAVIDSON: The answer is a very simple one. The wage increases that were won for these people are reflected in the changing costs per hour that we have to pay for warehousemen.

Senator O'LEARY: And that particular group was up that much more than the others you have indicated?

Mr. DAVIDSON: Yes, the figures are accurate, and they reflect exactly what has happened in our company.

Senator O'LEARY: Thank you. On page 27 you list examples of the purchase cost and retail price changes. Would you explain your general policy in cases where there are price changes over a reasonable period depending upon inventory turnover? What is your general policy with respect to changes in retail prices following changes in cost prices?

Mr. RAINEY: Senator O'Leary, the basis of this, actually, can be explained to you quite simply. Last week we had a number of cost changes. Out of four purchases of lettuce on four days we had three different prices. The market changed three times within that four day period. This statement here means that while the cost changes numbered 120 our actual retail changes over the same given period numbered 55.

If I might exemplify that a little bit, you might take—rather than working it on day to day costs we would take our own costs over a period, and average them, if possible.

Senator O'LEARY: Thank you. I refer you to page 30, paragraph 5, where you say you have many market gardeners and large growers who produce for you. You do not need to answer this question if you do not wish to, but do you in any way finance any of these growers who produce for you by way of short term credit, or giving them supplies of seed, fertilizer or anything else?

Mr. RAINEY: No, sir, we have no arrangements along those lines.

Senator O'LEARY: I refer you to page 31 where, with respect to local lettuce, you say that the dumping duty is still in existence for a period of three weeks after the local supply has run out. Has this been a standard pattern? For example, last year did this situation prevail?

Mr. RAINEY: It does not necessarily happen every year, sir, but there have been many instances of where the dump duty is apparently fixed on definite set dates, and when the local merchandise has completely gone out of production there is an area left in which the dump duty is still in effect. This is what I refer to, that for three weeks the dump duty has been on imported lettuce at the present time when there is not the locally grown lettuce that would normally take its place, and we have to import it.

I just mention that I agree 100 per cent with having the dump duty in effect when we have local lettice, or any other type of commodity, in season, and rightly so. I have no objection to that. But, I think that if the dump duty was a little more flexible so that if, as and when everybody is satisfied that there is no other local merchandise available then the dump duty could be lifted, which would in turn reduce the cost of the produce to us.

Mr. SMITH: Just as often the dump duty goes on too late as it stays on too long.

Mr. RAINEY: No, sir, that is not so, in my experience. I would say that in most cases the dump duty is on by the time the imported merchandise arrives—within a very few days, I would say.

Co-Chairman Senator CROLL: Senator Smith, was not your statement the evidence given by somebody just recently?

Mr. SMITH: I do not know, Mr. Chairman, but I am not a senator yet. I think this was the evidence given in relation to peaches the other day.

Co-Chairman Senator CROLL: Yes.

Senator O'LEARY: I have a final question with respect to page 37 of your submission, and I refer you to the last but one item dated September 22, 1966. I am not asking you about the complexity of the price structure because that is difficult, but is there a particular reason for that very low percentage of margin of 10.13 at that particular time?

Mr. RAINEY: No, sir, there is no particular reason, except that that was one item we decided we would feature that particular week.

Senator O'LEARY: Thank you.

Mr. MCLELLAND: My question is very short, and I do not want a long answer. I just want to know if your western division operates separately from your eastern division. I am talking about Manitoba, Saskatchewan and British Columbia. Do they operate separately?

Mr. MEECH: The answer is: Yes.

Mr. MCLELLAND: Do your trucks start from eastern Canada and go out to the west?

Mr. DAVIDSON: Not that far. We have trucking from Toronto as far away as Sault Ste. Marie. We have sent for-hire carriers with full truck loads of

merchandise on occasion to western Canada, but in the main shipments of that kind go from the east to the west by rail. In large measure the products of the west are secured locally.

Mr. McLELLAND: With your trucking setup do you have contracts with certain fuel companies?

Mr. DAVIDSON: Certain fuel companies?

Mr. McLELLAND: Yes.

Mr. DAVIDSON: We put our contracts for fuel out for tender every year, and the company changes from time to time.

Mr. McLELLAND: Regarding wages, do you classify your wage scale as to the amount of volume in each store or as to the particular geographical location?

Mr. DAVIDSON: That is one of the guides.

Mr. McLELLAND: The volume or the geographical location?

Mr. DAVIDSON: The volume, not the geographical location.

Mr. McLELLAND: This has been referred to several times, but I should like a little more information concerning it—you have Proten and regular beef. Do all your stores handle this Proten meat?

Mr. AGNEW: Most stores in the west do. We have it in Ontario—all stores in Ontario.

Mr. McLELLAND: In the west how does a customer know whether he is getting Proten meat or ordinary meat? Is it classified as such?

Mr. AGNEW: It has to be labelled as such. That is a Government regulation.

Mr. McLELLAND: You mentioned a while ago that you buy your meat by cuts.

Mr. AGNEW: Yes; pork—

Mr. McLELLAND: You buy your beef by size from packers?

Mr. AGNEW: Yes.

Mr. McLELLAND: In regard to this injection that is made, who tells the packers that Loblaws is going to buy this meat, as you say?

Mr. AGNEW: Swifts have all the particulars of this.

Mr. McLELLAND: So you cannot buy any meat except from Swifts or an authorized packing business?

Mr. AGNEW: That is right. There is an authorized one in Ottawa, and also in Toronto. They have a license on that basis, licensed by Swifts.

Mr. McLELLAND: I understand that Saskatchewan has no stamps, but there they like to play bingo more than others. Is there any relationship between your business in Saskatchewan and other places?

Mr. SHELLY: I know Saskatchewan, I was born there. You are quite right, there are no stamps there. We had them for a very short time, for a matter of a few weeks, and the Government decided otherwise; but the games are permitted. There is one running right now, and there is quite a substantial increase in business.

Mr. DANFORTH: My first question has to do with the distribution from warehouses. I understood in previous evidence that in a city like Ottawa there is some local buying permitted. My question is this. How much authority do local managers have, or do they have any authority, to purchase in any local district? Is it a policy of the company generally that purchasing is done through a main purchasing agent and then distributed to the main local stores?

Mr. HUFFMAN: With respect to what are known as dry groceries, unless a directive from the manufacturer is given, that is controlled from head office.

Mr. DANFORTH: I am particularly interested in fruits and vegetables and produce of that nature.

Mr. RAINEY: Yes, sir. We have a representative in Ottawa, who in turn contacts us once or twice a week in regard to the situation here on the procurement of fruits and vegetables. We buy a certain amount in Ottawa and Windsor or any points considerably distant from Toronto. We buy locally all farm produce during the summer season, in fact, from all areas. We have our own agents for local producers and they do buy a considerable amount over the period in pretty well all our areas where we have stores.

Mr. DANFORTH: I know it is the practice in some chains, and I am wondering if it is the practice with Loblaws, where a produce in a local area is purchased and shipped to a central warehouse or distributing point, sometimes 200 or 250 miles away, and then shipped back.

Mr. RAINEY: No, sir, not in our organization—we do not. In other words, you would perhaps figure if we were buying something say from producers in let us say the London area in relation to Toronto, we would have them bring it in big loads and distribute it back to London—is that what you mean?

Mr. DANFORTH: Yes.

Mr. RAINEY: No, definitely not. It would be very uneconomical for us to attempt to do that besides the time we would lose as well. It is much to our satisfaction to make our local deals right with the producers in that area and supply that area. We do not re-ship from the Toronto warehouse.

Mr. DANFORTH: Mr. Chairman, my next question has to do with the principle being involved in the purchasing and preparing for market and the actuel marketing in regard to eggs. Loblaws, according to the brief, are installing an egg handling system, and I do believe it is because they have the provincial licence as an egg grading station and perhaps one or two or more outlets. Is this a fact?

Mr. W. C. Miller, Dairy Department Manager, Loblaws Groceterias Co., Limited: Sir, we have been in the egg grading business for many, many years. The installation of this new equipment is merely updating in regard to the federal licence.

Mr. DANFORTH: May I pursue that. Do you then procure your eggs from main sources of suppliers on a contract basis?

Mr. MILLER: No, sir, we do not contract.

Mr. DANFORTH: Is it a fair question to ask how do you purchase your eggs from a primary producer?

Mr. MILLER: How we do it?

Mr. DANFORTH: Yes.

Mr. MILLER: By solicitation of the primary producer.

Mr. DANFORTH: It is not through local egg grading stations?

Mr. MILLER: No; we do our own grading.

Mr. DANFORTH: So you do not contract?

Mr. MILLER: We do not contract.

Mr. DANFORTH: Are there any premiums or inducements to have these producers supply Loblaws exclusively?

Mr. MILLER: There is an inducement for quality. We pay a 4 per cent premium for our extra large eggs over the price of large eggs.

Mr. DANFORTH: Is there any premium paid to the producer for quantity shipments?

Mr. MILLER: No. We have one price only to producers whether the eggs are from 2,000 birds or 100,000 birds.

Mr. DANFORTH: The allegation has been made that the retail price of eggs is very slow in following the trand downward in the purchasing price of eggs. In testimony before another committee it was found that in one particular instance the pricing in Ontario which is now on a retail carton basis has remained constant for a six-week period, while the price to the farmer and producer fell 25 per cent.

Mr. MILLER: That is not the case with us. I think I can explain what might have been given to you. Our eggs market for many, many years was quoted by the federal Government on what is known as a loose basis. A year and a half ago the producer section felt that this loose basis of market quotation was a representation of only about 30 to 40 per cent of the eggs marketed and could be, let us say, manipulated if some dealers wished to do so. The federal Department of Agriculture took it upon themselves to survey the situation and ran months of so called dry tests and they came up with a final conclusion, which was approved by the producer's group in Ontario, of a weighted average on the eggs sold in cartons rather than loose.

Mr. DANFORTH: Wholesale-retail?

Mr. MILLER: Right. Subsequently, this was changed because the chain stores volume being mixed with other wholesalers volume created a situation which you are referring to where the market price was held higher or steady. Now, other egg dealers at the same time were not able to sell their eggs in cartons. They were selling loose, and during a period of declining market, if they cannot sell to me or other chains, or other people in the carton business, what are they going to do with loose eggs, they just have to find a market for the best price they can obtain. I think that is the period you are referring to. I may be wrong, I do not know the dates, but I think that inference can be obtained. I am sure that I am on the right track there.

There is still considerable discussion on this particular point of what is the right market for eggs. I have been in Ottawa since Sunday with the federal Government and the Canadian Produce Council, which is a body operating throughout Canada, and this subject was again discussed at that level.

My own personal opinion is that the so-called carton price, or weighted average carton price, as it exists today, has removed—this can be proven by charts which the federal Government has—it has definitely proven that we have taken the low of the valley and the peak of the hill off. Eggs have been on a more stabilized price for the past one and a half to two years, and this ties all the way back to the producer.

In regard to the high price of eggs to the consumer at the present time, we do not like to forecast—if we knew all the answers we would not be here but under the palms in a different climate—it is safe to predict that egg prices will be very much lower in the month of March, 1967.

Mr. DANFORTH: On the fluctuation of prices, a figure was given—120, I believe—fluctuation in the purchase price, with a much less fluctuation in the cost at the retail level. There is a popular belief that the retailer takes advantage of this, to the extent that the change in cost, reductionwise, is very slow, in comparison with the way they change their price when the price goes up. In other words, is it not true that, when the price to you as a retailer goes up, the increase is placed immediately on the stock in hand, and that there is an additional profit there; whereas when the fluctuation is the other way, the retailer gains the profit on the other end as well.

Mr. RAINEY: In this particular field that you mentioned, the area of lettuce, it does not work that way. It is not unusual, it has happened many times, to

experience cases where we have seen the market go from $4 down in one week to $1.50. As to our prices at the $4 rate, we have merchandise rolling, we cannot wait, we would have stock at a high price, when we have merchandise coming in the following week at a much lower price. So we have to get down immediately, because we cannot store it. It is a highly perishable commodity and we must keep it moving. There are many times when it would be very profitable if we could store it, but we have to face the facts. We must be in a position to absorb it, when we know we have more coming in for the following week at a lower price.

Mr. DANFORTH: What about an unperishable commodity like eggs?

Mr. MILLER: They move exactly like the others, according to the market.

Co-Chairman Senator CROLL: On page 32 and subsequent pages, you deal with grapefruit, oranges, peaches, apples, bananas and potatoes. There is a pattern here, which appears throughout, I think. As to grapefruit on page 32, for March 10, 1966 grapefruit 80 was $5.40 and the mark-up was 16.92 per cent. A little later, the cost was $5.35 and your mark-up was almost doubled. Taking another instance, April 28, 1966 the cost was $5.90 and your mark-up was 31.94 per cent. In May, you bought them at $3.05—was that a different commodity?

Mr. RAINEY: It was a different pack.

Co-Chairman Senator CROLL: It was the same thing?

Mr. RAINEY: Yes.

Co-Chairman Senator CROLL: The cost was down but the mark-up was up. In June 2, 1966 the cost was $4.10 and the mark-up was 25 per cent. On June 16, the cost was $3.50 and the mark-up was 31 per cent. I am not going through the rest of these, as I have not time, but the pattern is there, as I have said. How do you explain the fact that you are paying less and charging more?

Mr. RAINEY: On these items, and on many other items listed, when you take that mark-up that you have quoted, March 10, 1966, 16.92 per cent, it is part of our operations, to take different commodities, perhaps on a feature basis. We feel that we should put most of every item we have in a feature item at different times, to the consumer, to stimulate interest. That is why the mark-up shows 16.9 per cent. It is not the least bit out of line in the case of grapefruit, to take a mark-up of around 29 per cent to 31 per cent. We have wastage in grapefruit, shrinkage in the stores. These margins, when you look at them on paper, look very good, but this is not necessarily the way they work out. There are many times when we have grapefruit which count 80 to the case, where we lose five or six, or probably more out of the same case. This has to be covered in the gross margin. Also, there is loss due to shrinkage in the stores, where they are picked over and we have to reduce the price. This margin is not in any way, shape or form, too high.

Co-Chairman Senator CROLL: I did not argue the margin with you at all. That is not my question. My question is, why, when you were paying less, you were charging more. That is my question.

Mr. RAINEY: In which instance, again?

Co-Chairman Senator CROLL: I have named them. March 10, 1966, $5.40.

Mr. RAINEY: That was a feature situation. In turn, we have all these items as features.

Co-Chairman Senator CROLL: In one week, March 10 to March 24, you have doubled the profit, almost—whatever the percentage was.

Mr. RAINEY: Sixteen per cent would not be our normal mark-up. That is a feature price, for that particular week. Around 29 to 30 per cent would be the regular mark-up.

Co-Chairman Senator CROLL: You had a mark-up between April and May, when you were paying $5.90 and $3.05, you had a mark-up from 31.94 per cent to 33.69 per cent. You were paying almost $2.85 less, yet you charged more.

Mr. RAINEY: That is $6 for grapefruit 80, the other is grapefruit 40. It certainly increased the mark-up. There is a slight variation.

Co-Chairman Senator CROLL: On June 2, 1966 the cost was $4.10. Then, grapefruit 48, it is a little bit more than the other, but you find this pattern throughout. Let me come to my second question. We have some information in connection with old stock. Could this have happened in your store? Information has reached us of a sardine can that had four markings on it—29 cents, 31 cents, two for 69 cents, and finally, the lady says she bought at 37 cents. And she was able, with some dexterity, finally to unwrap all the other wrappers that were on it. Could this be possible in your store?

Mr. SHELLY: I cannot understand four stickers being on the package. It would indicate that that product has not been properly rotated on the shelf. Either it is that or there has been an error. We have so many part-time young boys working in the stores that the human element is something we are contending with all the time. Certainly, it is not our policy to have four different prices on one item.

Co-Chairman Mr. BASFORD: Well, here, if I might ask a supplementary, is a label that was bought at Loblaws at Simcoe, Ontario. It is the label for imported sardines, and it has three prices on it.

Co-Chairman Senator CROLL: I was talking about imported sardines, too.

Mr. SHELLY: Well, the one shown to me here has one blank sticker.

Co-Chairman Mr. BASFORD: It could have a price underneath it.

Mr. SHELLY: But it has had two prices in total.

Co-Chairman Mr. BASFORD: There is one price here also.

Mr. SHELLY: Oh! I see. I do not know what the answer is. It might have been a feature price at one price and a regular price at the other. I am not just sure.

Co-Chairman Mr. BASFORD: Would you care to determine from your manager in Simcoe what the situation is and advise the Committee?

Mr. SHELLY: I would be glad to find out. It could be that the price dropped from 25¢ to 2 for 45¢.

Mr. MEECH: We will get a specific answer, Mr. Basford.

Mr. SHELLY: We will try to.

Co-Chairman Mr. BASFORD: Judging from our mail it is an extremely common complaint that housewives find two, three, four or five prices marked on goods, and I find from the volume of mail that it is hard to believe that it is a human error in marking the price.

Mr. SHELLY: This results from many changing costs that go through. Not all stores run out at the same time. In fact, no two stores run out at exactly the same time. If we were to sell every last can, we would have much more trouble by having 200 different prices in our stores; whereas now the price change goes out and they change it. Whether it is up or down makes no difference.

This sort of thing is purely what I would term the human element, but we will follow this up to see if we can find out what did happen.

Co-Chairman Mr. BASFORD: I take it that the policy, then, is to change the prices on existing inventories.

Mr. SHELLY: Not necessarily. By way of example, and this works out both ways, cigarettes went up 10¢ a carton in our costs. I would say this happened

roughly two months ago. We are again selling at the former price, because competition did not go up and we dropped the price, but we are way beyond the market, really.

This sort of thing happens from time to time. Generally, we follow the market down as promptly as when prices go up. We do not carry big stocks on hand; our buying is on a week-to-week basis on many items. So we just carry scant stocks.

It is not as though we were trying to make a profit on the market. We are looking for operational profit rather than market profit.

Co-Chairman Senator CROLL: Let me ask you this. We were speaking of instant coffee. A 6 ounce jar of Mother Parker's coffee, $1.13, was marked 20¢ off the regular price; Siesta, $1.15, was 25¢ off the regular price; Nabob, $1.17, was 12¢ off the regular price, and Red Rose, $1.18, was 15¢ off the regular price. How do you ever find out what the regular price is?

Mr. SHELLY: Well, we handle the regular stock merchandise, and, if you will just give me a moment, I will see if I can get the answer for you. I think they are all bona fide reductions as shown.

Mr. HUFFMAN: Mr. Basford, I thought I might just add a point to what Mr. Shelly was explaining with regard to merchandise which has a price on it other than the price at which it is selling at the moment. Often times, you know, you hear complaints, and in all these investigations there has been considerable discussion with respect to the fact that some people say that the prices are not the same, that they vary within the same chain or within different stores.

That is not the case in our organization, or at least we try for it not to be; but often times merchandise is purchased at a new high price that automatically should carry an increase in the selling price. However, owing to certain conditions in the overall market, that is to say our competitors, it is not possible right away, even though you have to pay the high cost, it is not possible right away to put the merchandise in the stores and sell it at the new price. You have to put it in and sell it at a competitive price.

Now, that particular article, we shall say, should have advanced a month or two months before we were able to advance it, and, therefore, we have the old price on that merchandise which bears the high cost. But, eventually, you have to put the high selling price on it so that all your prices are the same throughout your entire chain. So that, conceivably, on any one given item of merchandise, there is the possibility that it should have been advanced to a new selling price a month or two months before. You see, that does happen, and in some cases that could account for certain items having an overlapping price.

Co-Chairman Senator CROLL: The point is that my Co-Chairman gave you an item from Simcoe, I think he said.

Co-Chairman Mr. BASFORD: Yes.

Co-Chairman Senator CROLL: And mine came from Toronto. So that it is happening in both places. His article bears three prices; on mine there are four prices.

Mr. HUFFMAN: That was a Loblaw store, was it, sir, the one with four prices?

Co-Chairman Senator CROLL: Yes.

Mr. SHELLY: Could we come back to the instant coffee items you mentioned? I have checked with Mr. Astle, who says those are bona fide reductions.

Co-Chairman Senator CROLL: Then tell me this: to what does the ordinary consumer compare an article such as Colgate family size, 162 grams and 5 5/8 ounces? What does the ordinary consumer compare that with in order to know whether she is paying more or less?

Mr. SHELLY: I do not think she has any way of really comparing.

Mr. HUFFMAN: It would take a computer.

Mr. SHELLY: She looks at the size of the tube to see whether or not she wants to buy it.

Co-Chairman Senator CROLL: Your brands in the main are cheaper than the national brands?

Mr. SHELLY: That is right.

Co-Chairman Senator CROLL: I assume, and I hope I have the right to assume so, that they are of comparable quality. That is what the others said and I suppose you say the same thing.

Mr. SHELLY: I prefer to say it in my own words. We are sure that our own products are a very satisfactory quality, but we do not feel that we can sit in judgment on products we do not control.

Co-Chairman Senator CROLL: When you are offering the item, it is of good value. Is it good or better value than the national product?

Mr. SHELLY: We think our own products offer outstanding value.

Co-Chairman Senator CROLL: And you display them in better positions than the national brands?

Mr. SHELLY: We do.

Co-Chairman Senator CROLL: Why are they not bought, then?

Mr. SHELLY: They are bought.

Co-Chairman Senator CROLL: Why are they not bought in great volume then?

Mr. SHELLY: We have a tremendous volume on our Pride of Arabia coffee.

Co-Chairman Senator CROLL: You are mentioning only one product there. Why is there not a great volume on the other products?

Mr. SHELLY: Why do we not carry more private label brands?

Co-Chairman Senator CROLL: Why do you not have greater sales in the private label brands you carry. Why do people prefer to buy one that is more expensive and that, in fact, may not be any better?

Mr. SHELLY: I think advertising comes into the picture. The national brands do develop a following for their product.

Co-Chairman Senator CROLL: As Mr. Meech said, there is no romance.

Co-Chairman Mr. BASFORD: We will have Mr. Urie.

Mr. URIE: Mr. Chairman, I would like to direct a question to Mr. Meech on a little different line. On page 4 of the brief, Mr. Meech, you state that in Loblaws' retail operations in Canada since 1960 the trend of sales has been upward. In 1961 reported sales were $471 million. What were the sales in 1966 or at the end of your last fiscal year?

Mr. MEECH: You have it on the next page, Mr. Urie. It is 613 million.

Mr. URIE: I am sorry. Now, your company is made up of a head company and a number of subsidiaries. Do those sales represent the sales of Loblaws Groceterias alone or do they represent your other subsidiaries in Canada as well?

Mr. MEECH: They represent other subsidiaries in the retail business.

Mr. URIE: Could you tell us what those other subsidiaries are, sir?

Mr. MEECH: I will ask Mr. Robertson, our counsel, to answer that question.

Mr. ROBERTSON: The consolidated Canadian subsidiaries whose sales are reflected in here include Powers Stores, Pickering Farms, Super City Discount Foods Limited, Busy Bee and O.K. Economy Stores.

Mr. URIE: Do they include Kelly, Douglas & Company?

Mr. ROBERTSON: They are not a retail operation as I understand it.

Mr. URIE: These are only retail sales, and they are not in retail? As I understand it the net profits percentage to sales in 1966 on your $613 million was 1.88 per cent; is that correct?

Mr. MEECH: Yes.

Mr. URIE: Your company also has a substantial interest in National Tea Company, or is it wholly-owned?

Mr. MEECH: Majority-owned.

Mr. URIE: What were the 1966 sales of that company, can you tell us?

Mr. R. J. Kane, Management Consultant to Loblaw Groceterias Co. Limited: The last published sales of National Tea as at December 31, 1965 were $1,156 million, if my memory serves me right.

Mr. URIE: What was the net profit percentage to sales of National Tea Company in the United States? Maybe I can assist you. I have a report here from the *Financial Post*—

Mr. KANE: I was going to say around 1.1 or 1.2.

Mr. URIE: The report says .97. Would that be accurate?

Mr. KANE: It was about 11.5 million.

Mr. URIE: As opposed to 1.8 in Canada. Now other witnesses before us have told us that for Dominion Stores it was 2.07 per cent, Steinberg's 1.9 per cent, and yours is 1.88 per cent. Almost all of the others were one per cent higher than your subsidiary in the United States. Have you any explanation why the percentages vary so greatly between the two countries?

Mr. KANE: No, I am afraid in my capacity I cannot answer that. Maybe somebody in the merchandising field can.

Mr. URIE: Maybe some of the gentlemen here can assist the committee in this regard.

Mr. SHELLY: I think the word "volume" must enter into it. Across the border with their greater population a smaller percentage is possible.

Mr. URIE: The total volume is 500 million of a difference. In some cases some of the other stores that appeared before us were higher or lower than you. Surely it would not account for nearly one per cent on net profits? Does that indicate to you that the alleged tremendous competitive market in Canada is not nearly as competitive as it is in the United States? Do you say the prices in the United States are down because of the more stringent competition there?

Mr. MEECH: I would think so. I think the competition in the United States is very much keener and forces a lower return all through the various chains. I know they work on a lower margin than Canadian companies.

Mr. URIE: Why is that?

Mr. MEECH: I think it is due to the competition.

Mr. URIE: In your statement on page 39, at the second last paragraph, you state:

> The supermarket industry is highly competitive. Price spreads among all chains are minute. The battle for the consumer's dollar is keen and unrelenting. There is a constant struggle to keep the lid on prices, but rising costs in all sectors of the economy—in business, labour and government—have built up inflationary pressures that are beyond the power of the retailer to control.

That is not really quite correct in view of the fact that apparently all subsidiaries in the United States can in fact carry on business with a lower margin and presumably bring cheaper prices to the consumer.

Mr. MEECH: They have higher wage costs for one thing. I know when we run into our labour negotiations these labour patterns are hurled at us by Canadian unions and we are asked to come up to their level. It is a pattern which, if reflected in Canada, would mean we would become as competitive as they are. In areas in Canada we are not subject to as great pressure of competition. The A & P is a great giant in the United States as is Kroger and Safeway, and they are all trying to win more business and their margin of profit is at the lowest level through this constant pressure. In Canada we have not got the same pressure because there does not seem to be ample room to provide for it any more than what we are doing now. If there were ways of increasing profits we would certainly like to develop them. We are watchful of every improvement and economy that can be introduced into the operation and administration of business, but in spite of all that you end up with figures that don't give you what you expect. It is a hard question to answer.

Mr. URIE: The consumer is the person in the United States who thereby benefits by that tremendous competition. I would point out in the same period of time your dividends to shareholders had over the period from 1961 to 1965 more than doubled, which would indicate that there are substantial returns going to the people owning your company, the shareholders, whether among the company, or parent companies, subsidiaries or otherwise. Would it not be possible for your people in the industry to reduce the prices and thereby obtain an adequate return on the investment and also assist the consumers by giving them lower prices?

Mr. MEECH: I have just been handed a note here referring to your earlier question and it points out that the United States supermarkets are open seven days a week in many areas. Also, some of them are open daily from 8.30 to 10 o'clock. I know in the case of National Tea we had opened up in one of the states on Sundays. There is constant pressure to win sales that reflects in their operation on a lower return.

Mr. URIE: But apparently the investors are satisfied with the lower return. To get back to the question I just asked, which you have not answered: Why cannot your investors be satisfied with a lower return and so benefit the consumer?

Mr. KANE: I think the market condition determines your dividend to a great extent in relation to the profit you earn. I believe in respect of this company that the dividend is not out of line compared with that paid by other food chains. It has been running at approximately 3 per cent of the market, before it went down, and this is considered a normal return that the investor can expect from such an investment.

Mr. URIE: May I ask this: Is it 3 per cent on the value of the share as at any particular date?

Mr. KANE: No, it is 3 per cent of the market price of the share. If you had X dollars to invest and if you want to get 3 per cent on your money you invest in a food store. If you want 5 per cent you would not invest in a food store because very few of them pay that kind of return on the stock.

Mr. URIE: But, by the same token, am I right in my reasoning, sir, an investor who invested in Loblaw Company Limited in 1961 would have found his dividends increased by more than 100 per cent in the intervening period had he held on to the stock?

Mr. KANE: Yes, and if they had not, I doubt whether he would have held on to his stock. It is still a small return, and I think the dividend policy in food

chains is one that is not as high as dividends in the States. I believe the National Tea dividend is still higher than that of the groceteria.

Mr. URIE: But on a lower net profit percentage. How do you figure that?

Mr. KANE: I was speaking strictly from a financial point of view there.

Mr. JOYAL: Mr. Meech, perhaps we got the impression your Canadian operations are subsidizing your American ones. I was wondering whether you could provide us with the net earnings of your Canadian retail stores operation, including the subsidiaries, which your counsel gave the committee a few minutes ago.

Also on the basis of these earnings, the dollar earnings for sales and also the per share earnings.

I think this is the only way in which this committee can make a valid comparison between your operations in Canada and similar operations by other companies also in Canada.

Mr. MEECH: Yes, we will furnish that.

Mr. KANE: The profit attributable to the Canadian retail operations is shown in the table on page 5. This is not worked out on a per share basis.

Mr. JOYAL: We have your total sales in Canada of $613 million, and I take it page 5 also discloses the profits, but what we want to find out is what is the return on investment for your Canadian operations.

Mr. URIE: Would you agree, Mr. Meech, that if each of the supermarket chains were to independently or otherwise reduce their margin of profit, the prices to the consumer of the goods that you sell would thereby be reduced?

Mr. MEECH: Oh yes, I go along with that.

Mr. URIE: I have only one other thing, and this is a list of commodities which was filed by the first witnesses before us, A & P stores, with the retail prices and percentage profits in the years 1965 and 1966. Each of the other witnesses has agreed to furnish an identical list. You have a list which is in many respects identical—

Mr. MEECH: But you want one that compares with this?

Mr. URIE: Yes, that is right, if you please.

Senator CARTER: Mr. Chairman, on page 3 of the brief attention is drawn to the fact of the large increase in the number of items carried in supermarket stores. In 1919 there were only 450 items; today there are 6,000 items; and a projection up to 1970 estimates a possible 12,000 items. To what extent is this situation due to different manufacturers putting up the same product in so many different sized packages? Just take powdered soap, for example, or food stuffs. Some are merchandised in 12-ounce size, some 14, some 24, some 32. Does that sort of thing add to your costs?

Mr. MEECH: I would say, definitely yes. The supermarkets are very vulnerable to the manufacturer. He creates, through his research department, these new products or new packages of the same products, or new quantities that are more acceptable, and the supermarket has to put them on the shelf, because some customer says, "I have seen this item in such and such a store. Why haven't you got it?" You have to put it on your shelf. Whether you have a brand that is comparable or not, you have to keep abreast of what is being offered to the consumer, and you have no control, as a retailer, over these various products. We do not ask for products to be prepared to our specifications, except in our own private label which conform then to the accepted packaging of the national brands.

On this item of 12,000 new lines, I would like Mr. Huffman to make a further comment for you.

Mr. HUFFMAN: With respect to the 12,000 lines eventually, that seems to be a figure that has been used. I would not know for sure just how close it may come to that. Obviously, when there are more lines to be sold in any one given store it means that many more adjustments in space and shelves and in the warehouse and additions to stores. It adds to the cost, there is no doubt about that.

Senator CARTER: Of this multiplicity of different sizes put up by eight companies, is there usually only one that is popular?

Mr. HUFFMAN: No, I would not say that.

Senator CARTER: When you put up your own products, do you put them up in all this multipicity of sizes, or choose a popular size?

Mr. HUFFMAN: We put it up in what is commonly accepted as a popular size. In tea and coeffe there are a certain number of sizes—packages like half and one pound in tea, and one and three pounds in coffee. However, if we have many more lines, I am sure we would adjust, where we might experiment with a number of sizes to eliminate some ourselves. You can get more turnover with the lesser number of lines you have, so it is so much the better.

Senator CARTER: You can tell from your experience which particular sizes sell the best?

Mr. HUFFMAN: We eliminate these about as fast as we are taking them on. We have continual checks.

Senator CARTER: That is on your own products?

Mr. HUFFMAN: No, on all products.

Senator CARTER: In other words, you are selecting and not carrying all the different sizes put out by any manufacturer?

Mr. HUFFMAN: Not necessarily. If they warrant shelf space through sales, we carry them.

Mr. McCUTCHEON: Might I interject a brief supplementary here?

Co-Chairman Mr. BASFORD: No, not at 25 to one. I will put you at the bottom of the list.

Senator CARTER: If there were some government regulation whereby standard packaging sizes would be set by law, would that reduce your problem and your costs—say, a popular size, a smaller size and a giant or economy size?

Mr. HUFFMAN: Do you mean, if they said that in soap powder, say, they could only have four sizes instead of seven?

Senator CARTER: Yes, or three sizes.

Mr. HUFFMAN: I presume if they were the right sizes for the householder, the housewife, then I think it would help.

Mr. MILLER: A supplementary—is that the correct term, Mr. Chairman?

In the processed cheese business, under the Canada Dairy Products Act they have set the packaging, and it must be a multiple of 16 ounces—4, 8, 16 or 32 ounces in Canada. In the United States this is not so. For every package size of processed cheese we have in Canada, I guarantee the United States has at least five. What I am trying to say is that we have an eight-ounce package of cheese. In the United States a manufacture can come out with a 7-3/4-ounce, a 5-1/2-ounce, a 6-1/4 or 6-3/4-ounce, and this is the same thing as you are referring to. By legislation, in Canada we cannot come up with all these varied packages in processed cheese.

Senator CARTER: Do you call it a good thing?

Mr. MILLER: Yes, and we support it 110 per cent in the industry. We do not want any breakdown, please.

Senator CARTER: We want to make it cheaper for the consumer.

Mr. MILLER: It works in processed cheese, and it can work in that field you are speaking of too.

Senator CARTER: On page 5—I think Mr. Urie asked about this—your reported sales are $613 million for 1966. That does not include, I take it, the processing operations or the packaging operations? This is retail only?

Mr. MEECH: Retail only, that is right.

Senator CARTER: If you had the whole operation what would your total be—that is, if everything was included?

Mr. MEECH: I would have to furnish that for you.

Mr. KANE: The consolidated sales for the year ended May 28, 1966 amounted to $2,329,000,000. I am giving this from memory.

Senator CARTER: So your retail sales are roughly 25 per cent; is that right?

Mr. KANE: I beg your pardon?

Senator CARTER: Your retail sales are roughly 25 per cent?

Mr. KANE: That is correct. The Canadian retail sales amounted to approximately 25 per cent of the total consolidated sales of the company.

Senator CARTER: I would like to follow up a question of Senator Croll. On page 3 you talk about Loblaw controlled products—your own brands—and somewhere on that page I think you say that they account for only 5 per cent of your sales. Is that 5 per cent of dollar volume or 5 per cent of all items?

Mr. KANE: Five per cent of the Canadian retail sales—that is, $30 million.

Senator CARTER: Over on page 11 you refer to that, and you say:

> By producing or controlling the production or processing of our own merchandise, and by merchandising private label merchandise, we help reduce the costs of such products and this results in lower selling prices being passed on to the consumer.

That is true as far as it goes, but if it represents only 5 per cent of your sales it would not be of much benefit to the consumer, would it?

Mr. MEECH: That policy is now under review, and you will see an expansion of the private label business in our organization.

Senator CARTER: You do contemplate an expansion, then?

Mr. MEECH: Yes, in that field.

Senator CARTER: The reason why you sell only 5 per cent is because you are not promoting your own brands; is that correct? Your own brands are not being promoted as well as the other brands?

Mr. MEECH: It would not be on account of promotion. It would be because we did not get into that form of operation earlier.

Senator CARTER: For how long have you been in it?

Mr. MEECH: Since the organization of the company we have had our Three Little Pigs sausages and Pride of Arabia coffee, and tea and peanut butter, but in respect to the great range of private brands that has been submitted to this committee we are just beginners. We have seen from the evidence that has been given before you gentlemen that it is a very attractive field for us to get into quickly.

Senator CARTER: On page 12 you refer to your pricing system, and Mr. Saltsman asked you a series of questions on that aspect which showed that prices were pretty well the same in various stores. I gathered that your prices, regardless of your mark-ups, are set to compare with those of your competitors. If your competitors are selling something at 2 for 29 cents, you discover that and price yours at 2 for 29 cents?

Mr. HUFFMAN: One point might be that your competitors might be selling at the same price.

Senator CARTER: Is that the guiding factor?

Mr. HUFFMAN: It is a factor.

Senator CARTER: Is it the most influential factor?

Mr. MEECH: If it was a product of the same quality it would be a determining factor.

Senator CARTER: Would it be right to say that your price level is really determined by that of your weakest competitor? That would apply generally, would it not?

Mr. HUFFMAN: I did not know that we had any weak competitors.

Senator CARTER: They are not all the same.

Mr. MEECH: No, they are very good.

Senator CARTER: You make your own bread, I understand.

Co-Chairman Mr. BASFORD: Senator, it is almost a quarter to one.

Mr. HUFFMAN: No, we do not manufacture bread.

Senator CARTER: I thought you referred to one of your subsidiaries which was a bakery.

Mr. HUFFMAN: No.

Senator CARTER: What do you sell bread at—a 24-ounce loaf?

Mr. A. Edwards, Director of Manufacturing and Bakery Department, Loblaw Groceterias Co., Limited: I would have to qualify my answer by asking you where?

Senator CARTER: Here in Ottawa.

Mr. EDWARDS: Today that bread is selling at $15\frac{1}{2}$ cents—2 for 31 cents.

Senator CARTER: I have just one more question, Mr. Chairman. According to page 20—I would like to get an answer on this one—you sell your own private brand of ginger ale at $14\frac{1}{2}$ cents as against $24\frac{1}{2}$ cents for Canada Dry, the national brand. That is about a 70 per cent increase. Now, is your private brand manufactured by Canada Dry?

Mr. ASTLE: No, sir.

Senator CARTER: Who manufactures it?

Mr. ASTLE: Wilson's, sir, and Pure Spring here in Ottawa.

Senator CARTER: Is there really a sufficient difference in quality to justify the 70 per cent higher price?

Mr. ASTLE: I think it is merely a matter of taste. In addition, ours is a private label, while Canada Dry is a nationally advertised brand. What they have built into their costs for promotion, I do not know.

Senator CARTER: Do those firms that manufacture for you have a national line?

Mr. ASTLE: I would not call it a national brand; it is a regional brand, more or less. It does not have the wide distribution that Canada Dry enjoys.

Senator CARTER: Do you sell their own brands in your stores?

Mr. ASTLE: Yes, we do, sir.

Senator CARTER: What are the prices of those as compared with—

Mr. ASTLE: I would say there is about a two or three cent difference per bottle.

Senator CARTER: Theirs would be three cents higher?

Mr. ASTLE: That is correct.

Mr. LEFEBVRE: Some of us are getting hungry, Mr. Chairman, so I will be brief.

Mr. Meech, you mentioned a while ago something about romance in shopping. I do not know how many of the housewives going into your stores are looking for romance, but I am wondering what your opinion would be on this: Instead of giving away dishes, lamps and cars, et cetera, and all of these gimmicks, for a couple of weeks, you started giving away products that you sell, such as steaks, canned goods and eggs, what effect would this have on shopping?

Mr. MEECH: I do not think we would be able to accommodate the customers.

Mr. LEFEBVRE: This is what you are looking for.

Mr. MEECH: We would be overtaxed.

Mr. LEFEBVRE: But this is what you are looking for—more shoppers.

Mr. MEECH: Yes, but it is not good conduct of business to be in the business of give-aways—to give things away for nothing.

Mr. LEFEBVRE: You are giving away cars, dishes and stamps, and everything else. Why not give away something you are selling?

Mr. MEECH: You have heard it explained that that is all part of our promotion. When you are giving away a car you are taking away an extra page of advertising in the newspapers. The newspapers would like us to stop these give-aways because it means that the supplier, who wants his product known, will force the issue to the extent of asking you to put in ads that will cover his products. Consequently, it will bulge out somewhere. If you take it away from these various games and promotions it will be compensated for in some other form of advertising. That has been our experience.

Now, if your committee comes forward with a recommendation as to outlawing these things, then that is another matter. That may be within your good judgment and province to do—to recommend regulations to keep merchandising in Canada on a basis that will meet these very serious problems that you are facing and trying to get answers for. I know it would simplify our business greatly. Take, for instance, the cheese operation. If the Government saw the necessity there of regulating cheese packaging so that the customer knows exactly when she picks up a package that she has got a definite weight, that could have very good results, and it might be applied usefully to other products. I think you would find great resistance when you came to speak to the manufacturers and processors in that field, because they will lose a lot of their ability to win business if you take away from them this differential in the size of the package, and the attractiveness of the package. But, I think you are on the right road in thinking this way.

Mr. LEFEBVRE: To get back to my original question—that was a very nice answer you gave us, with lots of detail. But, supposing next week you took down all your signs about cars, dishes, stamps and everything else, and you put a big sign in your window saying that for every ten dollar order you will give a T-bone steak, do you not think that this will attract as many customers as these other gimmicks?

Mr. MEECH: Yes, I do—unquestionably.

Mr. LEFEBVRE: Why not try it, then?

Mr. MEECH: If you get our competitors to go along with it, we will do it.

Mr. LEFEBVRE: Why wait for your competitors to do it?

Mr. MEECH: I think it will take a lot of advertising to prove that.

Mr. HUFFMAN: I do not think we would get much support from the customers.

Mr. LEFEBVRE: Senator Croll mentioned much about these items that were selling for two cents, three cents or ten cents off. What is your opinion on this? Is it a good thing or a bad thing? I am talking about those items that come from the manufacturers marked "10 cents off" or "15 cents off".

Mr. SHELLY: We refer to them as off label deals, and we discourage them. They are a problem for us to handle, and they make for confusion, as has been pointed out in the last several days. It causes pricing confusion, and when the customer brings the article to the counter they expect 10 or 20 cents off. It also makes for duplication of stocks. It makes for all kinds of problems, and we would prefer that they adopt other merchandising ideas rather than the cents off.

Mr. LEFEBVRE: What is your company doing to discourage the manufacturers from doing this?

Mr. SHELLY: This is beyond our control. We register our disapproval, and that is as far as we can go. If they decide to introduce their products or support their products in that manner we know our competitors are going to buy those deals, so it is a competitive necessity for us to have them as well.

Mr. LEFEBVRE: This is just the point. I believe every general store represented here has made the same statement that they are against them.

Mr. SHELLY: I would expect so.

Mr. LEFEBVRE: If everybody is against them, how can we still have them?

Mr. SHELLY: Because the manufacturers don't ask us.

Mr. LEFEBVRE: But if all chain stores decided against them, we wouldn't have them.

Mr. SHELLY: If they all decided, it wouldn't work.

Mr. LEFEBVRE: Well, this is the statement that has been made here every day, that they are against it.

Co-Chairman Mr. BASFORD: The point is, if they agreed not to do it they would all end up in jail.

Mr. LEFEBVRE: Now, you manufacture very little of your own main brand goods yourselves?

Mr. SHELLY: It is not too wide a range at the moment.

Mr. LEFEBVRE: Who does manufacture them?

Mr. SHELLY: Most of the products we sell are national brand products.

Mr. LEFEBVRE: But your own brands, I mean, who manufactures them—your house brands?

Mr. SHELLY: Oh, there are different manufacturers. Some of our house brands are our own manufacture. For instance, coffee and tea are processed by ourselves. When it comes to detergents it is done by an outside company with which we have no connection.

Mr. LEFEBVRE: Do some of the national brand manufacturers also make your brands?

Mr. SHELLY: I would say yes. Just a moment. That is right.

Mr. LEFEBVRE: Well, would there be some cases where your purchases from the national brand manufacturers would be a major portion of your manufacturing motif?

Mr. SHELLY: Let me think it over for just a moment, please. No, I would say nothing that is major.

Mr. LEFEBVRE: Would you be the biggest single customer in a lot of cases without being the major buyer?

Mr. SHELLY: I don't think so.

Mr. LEFEBVRE: Do you have shares in some of these manufacturers?

Mr. SHELLY: Not to my knowledge.

Mr. LEFEBVRE: To your knowledge, do any of your subsidiaries have any shares in some of these manufacturers?

Mr. SHELLY: Again, not to my knowledge.

Mr. LEFEBVRE: Did you say that the percentage of your own name brands is only 5 per cent of your total sales?

Mr. SHELLY: That is what the brief says, yes.

Mr. LEFEBVRE: In the particular case of coffee, which you seem to be very proud of and push quite a bit, what percentage of your coffee sales are your own sales?

Mr. SHELLY: I do not have that figure with me.

Mr. LEFEBVRE: Could you provide it for the committee?

Mr. SHELLY: I think we could.

Co-Chairman Mr. BASFORD: It is five to one.

Mr. LEFEBVRE: Thank you.

Mr. ALLMAND: Mr. Saltsman asked the question, why don't you give away meat rather than premium stamps? Could it be that by giving away premium stamps, and because you own your own premium stamp company, you are making a profit on the gifts you carry and wouldn't make as much on giving away meat? At a previous meeting of the committee Steinbergs admitted making a profit if they were allowed two cents for each stamp. It seems to me that you would not change, because you would want to make a profit on stamps rather than to give away meat.

I will put a couple of questions, because I may be cut off. Mr. Saltsman gave you some examples from the *Globe and Mail* whereby a shopper went into six stores and checked the national brand prices of Nescafé and others, and the prices were nearly all the same. He asked you why, and you said because of strong competition, and that in fact the competition was so strong that if your competitor had already put an ad in the newspaper and you saw a change of a cent off, you would change your price. That did not seem to me to be a very good explanation. Earlier in the week we had one of your competitors file as an exhibit a comparative survey of prices, which showed that out of 2,364 items checked in one competitor's store, only 683 were the same in this particular store, and that 1,498 were higher, and 183 lower. This shows that the great number of prices in heavy competition are not the same. I don't see how you can have that both ways.

If competition leads to prices being the same, why are not the vast majority of prices the same? It seems to me that others say that prices are different because of competition. You have just answered Mr. Saltsman that in national brands you check them so closely that the prices are all the same because of competition.

My very last question is, on page 20 you are comparing your private brands with national brands. I see one instant coffee, 10 ounces at $1.53 for the private brand, and for the national brand $1.69, the national brand being Maxwell House, but a few lines down is Trumpet Instant Coffee, 10 ounces, $1.29. You said earlier that you would not question the quality of the national brand, but you said your quality is just as good.

Mr. SHELLY: No, I didn't say that.

Mr. ALLMAND: Those are my three questions.

Mr. SHELLY: Starting with your last question, you speak of a comparison list of 600 and some items. We know nothing about the basis of that comparison, but I submit that when you compare that many items there is bound to be an improper comparison somewhere. Dealing with coffee, we were asked to put in

a national brand, which we did, and this is how easily you can distort a comparison. I think that is an outstanding example of that.

Mr. ALLMAND: What is the difference between, and why do your compare Pride of Arabia Instant, and regular, and Maxwell House?

Mr. SHELLY: We were requested by your committee to discuss ours with national brands. One costs us less money than the others. It is a matter of different coffee, I suppose—flavour.

Mr. HUFFMAN: A cheaper blend of coffee.

Mr. ALLMAND: A good quality of coffee, nevertheless.

Mr. SHELLY: That is right.

Mr. ALLMAND: You compared, them, Maxwell House $1.69, and your private brand $1.53.

Mr. HUFFMAN: I think Mr. Shelly explained this, that we were asked to compare with two brands.

Mr. SHELLY: We compare only price here and not quality. I say that our own brands are very satisfactory, we are proud to have them tested by consumers; but we are not in a position to comment on the national brands product. Only he knows what is in it.

About the trading stamps, making a profit on gifts, to me that comment has an odd ring. How can you get money on something you give away?

Mr. ALLMAND: Let me suggest how. Your subsidiary buys the gifts at a certain price; when you give them away, you say that to get these gifts one must have so many trading stamps.

Mr. SHELLY: You mean that it reduces the cost of our gifts to us?

Mr. ALLMAND: First of all, you are buying a lot of gifts, to give away to people who have trading stamps. The person who gets the gift must have so many trading stamps. You are the one who determines the number. You can determine it in such a way that if, for example, a trading stamp is worth two cents, you can say that this gift requires 100 stamps. Therefore, you have made a profit on the gift, with respect to the cost you paid for it.

Mr. HUFFMAN: We have not made a profit, we have simply lowered the cost. That is why, as the brief stated, we own the stamp company.

Mr. ALLMAND: On the same situation, Steinbergs admitted that they did make a profit.

Mr. HUFFMAN: But you may have noticed he also said, at the same time, that it was still in his overall profit.

Mr. ALLMAND: He said his overall net profit was under two cents.

Mr. HUFFMAN: It was another company operation. The savings due to the stamp company are part of the profit. Nevertheless, it is actually a reduction. I know this sounds a little difficult to understand, but you cannot make money on something you give away.

Mr. SHELLY: The word "profit" is the misnomer here. If you used the word "saving", I would go along with it.

Mr. ALLMAND: We would have to examine that, it appears to me. Since you determine yourselves the number of stamps required, you are putting that number sufficiently high.

Mr. HUFFMAN: You cannot make a profit on something you give away.

Mr. ALLMAND: I think you are right.

Co-Chairman Mr. BASFORD: You are going into the meaning of words. You are obviously not satisfied with the answers you have received.

Mr. ALLMAND: I have one other question. You gave one reason why prices would be the same as the national brand, but it seems that quite a number are

different. If competition with the national brand is so different, why are the prices not all the same?

Mr. HUFFMAN: I did not say the national brands were the same.

Mr. ALLMAND: In answer to Mr. Saltsman, who gave you an example of a woman who checked six stores and the prices in each, Mr. Meech said the reason the prices were the same is that they keep a close look at competition, to make it the same. I asked why are so many others not the same, if that is the real explanation.

Mr. HUFFMAN: There is a limit to the purpose in making a comparison, in the examination of the short list that you refer to. There are 6,000 to 8,000 lines in our supermarkets. You cannot make a comparison of this type, on a small little list of prices, where some happen to be that way, and you happen to pick out these prices. There are thousands of other lines.

Mr. URIE: This question is supplementary to one I asked earlier. What wholesalers does your company own?

Mr. ROBERTSON: You refer, within the consolidated organization?

Mr. URIE: Yes.

Mr. ROBERTSON: It does not own any.

Mr. URIE: What wholesalers does it have an interest in?

Mr. ROBERSTON: It has an interest in Kelley-Douglas.

Mr. URIE: What is the size of that interest?

Mr. ROBERTSON: I do not have the exact percentage. There are two classes of stock. There is a direct controlling interest, I believe, in share control.

Mr. URIE: Are there any others? National Grocers?

Mr. ROBERTSON: It has an interest in National Grocers, and in York Trading.

Mr. URIE: Are these controlling interests?

Mr. ROBERTSON: Yes.

Mr. URIE: Do those organizations deal with independent retailers in competition with your groceterias?

Mr. ROBERTSON: I am not in the merchandising end.

Mr. HUFFMAN: I would say that is right.

Mr. URIE: Do those wholesalers purchase their supplies from the same suppliers as Loblaws purchase groceries from, by and large?

Mr. HUFFMAN: Yes.

Mr. URIE: Loblaw Groceterias does not purchase through any of the wholesalers which it owns, partially or otherwise?

Mr. HUFFMAN: They supply two or three of our stores because they are out of the distance where it would be economical to transport our own goods.

Mr. URIE: Do they sell to those stores at the same mark-up as they would to independent retailers?

Mr. HUFFMAN: I would think so. I could not be factual, but I would think they would.

Mr. URIE: Could you get that information for us, sir? Therefore, in your organization, there is one extra step involved when a merchant purchases his goods from York Trading, National Grocers or Kelley-Douglas. There is one extra element of cost involved to that retailer, over that which prevails throughout your organization—except in a few cases?

Mr. HUFFMAN: Yes, on the surface, it would appear that way. In our retailer organization we perform the same service as a wholesaler. When he operates, he has a buyer and a warehouse and we have the same thing.

Mr. URIE: What would be the margin of profit involved as between your warehouse and retail store?

Mr. HUFFMAN: I would have to inquire.

Mr. URIE: Would you get that for us? Arising out of an earlier question, I understand that all the shares that the Loblaw parent organization—Loblaw Groceterias or Loblaw Limited, I am not sure—are owned by George Weston Limited. Is that correct?

Mr. MEECH: This is right.

Mr. URIE: And George Weston Limited is in a vast number of businesses?

Mr. MEECH: Yes.

Mr. URIE: Therefore, your organization has direct or indirect connections with many suppliers of goods that are purchased by your retailer organization. Is that correct?

Mr. MEECH: That would be correct.

Mr. URIE: Could you supply for this committee information concerning the purchases from companies owned by your parent company, the George Weston organization? That is all, Mr. Chairman.

Co-Chairman Mr. BASFORD: I have a couple of questions. I have been waiting to ask about the George Weston organization. It was predicted in the *Globe and Mail* yesterday that the centennial project for Loblaw Groceterias was a merger with Weston. Is that correct?

Mr. MEECH: It is the first I heard of it, Mr. Chairman. It has been mooted and it has been, I think, almost requested by the financial community, but we in Loblaws are not that close to the George Weston Company that we would know.

Co-Chairman Mr. BASFORD: If this came about, it would create a huge colossus in the food business?

Mr. MEECH: No more than it is now. It is just a different rearrangement.

Co-Chairman Mr. BASFORD: The merger would not affect your share of the market?

Mr. MEECH: No.

Co-Chairman Mr. BASFORD: In line with the questions by Mr. Urie, I wonder if you could file with the committee a statement or chart showing the companies in which Loblaw Groceterias Co., Limited has an interest, and the degree of that interest; and the companies which have an interest in Loblaw Groceterias Co., Limited, and the degree of that interest?

Mr. MEECH: Yes, we can do that.

Co-Chairman Mr. BASFORD: It being 10 minutes after one o'clock, we will adjourn. I would like to express thanks and appreciation of the committee to you and to Mr. Meech and your colleagues from Loblaws, for their full and extensive brief, and for your full answers.

We are charged with this examination, and this is somewhat in the way of a preliminary hearing, and we may well request that you come back.

We will be sitting this afternoon at 3 p.m. to hear Canada Safeway Limited.

The committee adjourned.

—Upon resuming at 3 p.m.

Co-Chairman Mr. BASFORD: Honourable senators, members, this afternoon we have with us the representatives of Canada Safeway Limited, who will be making a statement. They are represented here by Mr. W. J. Kraft, Chairman of the Board and Director of Canada Safeway Limited, on my immediate left; Mr.

R. G. Spelliscy, Area Comptroller from Vancouver; Mr. D. C. McGavin, Q.C., Director and Secretary; and Mr. J. A. MacAulay, Q.C., Vice-President.

Without further ado, Mr. Kraft, I would ask you to begin your statement, which, I believe, has already been distributed.

Mr. J. A. MacAuley, Q.C., Vice-President, Canada Safeway Limited: Mr. Chairman, honourable senators and members, I am very sorry that time did not permit us to provide copies of our brief in French. This is receiving attention and copies will be supplied at a very early date.

Mr. W. J. Kraft, Chairman of the Board and Director of Canada Safeway Limited: I am Walter J. Kraft, of Vancouver, British Columbia, Chairman of the Board and Director of Canada Safeway Limited. I am also President of Macdonalds Consolidated Limited, one of Safeway's two operating subsidiaries. I am happy to represent Safeway and Macdonalds in accepting the invitation of this Joint Committee to testify in connection with its investigation of "trends in the cost of living in Canada and factors which may have contributed to changes."

The scope of the suggested topics for discussion is such that it would be impossible to cover all of them in any great detail in my prepared presentation. I will, of course, do my best to furnish additional details called for by questions; however, the broad managerial nature of my responsibilities is such that I do not have at my fingertips all of the details of our extensive and complex operation. I would therefore be pleased to make an additional submission to the Committee at some later time of further information or data that might be helpful to the Committee in understanding the grocery industry.

I would like to say at the outset that Safeway shares the concern expressed in many areas about inflationary forces in the economy, and the price increases that have occurred in cost of living items, including some but not all foods. But while some food prices are up, foods represent good values for the Canadian consumer, and relative to wages and salaries, food costs over the years have declined, despite higher quality diets, greater variety and greater convenience. Official government statistics show that the proportion of consumers' disposable income spent for food declined from 23.3 per cent in 1957 to only 20.3 per cent in 1965.

As a large retailer, Safeway recognizes its responsibilities to continue to assist housewives to economize with their food budgets. Safeway pledges to continue to seek out and offer the very best values that we possibly can to our customers. We encourage our customers to shop carefully by reading our ad announcements of current best values, by comparing the prices of the various items and brands within our stores, and by buying those foods in more plentiful supply.

Canada Safeway Limited, a Canadian corporation incorporated in 1929, operates some 247 supermarkets in five Western Provinces, and several fluid milk and ice cream processing, and egg packaging plants, to serve those stores. Retail operations are decentralized in three regional Retail Divisions extending west from Port Arthur, Ontario, and including the Winnipeg Division with 49 retail stores in Ontario and Manitoba, the Prairie Division with 102 stores mostly in Saskatchewan and Alberta, and the Vancouver Division with 96 stores in British Columbia.

One of Safeway's two operating subsidiaries is Macdonalds Consolidated Limited, which acts as a processing, warehousing and procurement agent for Safeway, and also engages in a limited wholesale business. Macdonalds' wholesale sales to independent retailers, institutional, governmental and other outlets

has in recent years amounted to only about one-fifth of Macdonalds' total shipments.

These wholesale activities are a continuation, on a limited basis, of operations conducted by Macdonalds back in 1929, when it was acquired as a warehousing facility and source of supply for Safeway. The wholesale portion of the operation has diminished over the years, and wholesale operations in Winnipeg and Vancouver were discontinued when Macdonalds warehouse space at those points became merely adequate to serve Safeway's expanding needs.

Safeway feels that Macdonalds' wholesaling activities render a constructive service to the independent, unaffiliated grocer. Macdonalds not only stocks the finest brands—some of which are not available through other wholesale channels—but also has consistently followed a low price policy. In addition, in some areas independents would be served by only one wholesaler, but for Macdonalds.

Safeway's other operating subsidiary is Jasper Dairy Co. Ltd., and Alberta corporation which was acquired by Safeway just last month, for the purpose of processing fluid milk products in Alberta this acquisition will enable Safeway to extend to Alberta producers and consumers the benefits of Safeway's bonus quality milk program.

Safeway's only other subsidiary is Wingate Equipment Lessors Limited, a Canadian nonoperating corporation organized and incorporated in 1940 to finance the purchase of equipment.

Canada Safeway employs Canadian people and all of its directors, executive officers and supervising employees, as well as those of its operating subsidiaries, are Canadian. Canada Safeway's policy is to maximize purchases of Canadian products, and to follow a program of reinvesting earnings in Canadian operations. For example, common stock dividends paid to the parent United States Company have amounted to but $112,000 each year since 1957, while dividends paid to holders of preferred stock sold entirely to Canadians have ranged from $300,000 to $400,000 per year, and largely through reinvestment of earnings, total assets of Canada Safeway have increased by some $50 million.

Further to clarify the organization, management, and scope of Canada Safeway Limited, its 1965 Annual Report is submitted as Exhibit "A".

(*See Exhibit "A" following this text*)

Since its incorporation in 1929, Safeway's motto and guiding principle has been "Distribution Without Waste". To supplement that principle, Safeway has the following basic pricing policy:

> We will make available to our customers prices which are set at the lowest points that will enable us to operate profitably, with the objective that the value of the consumer's grocery dollar will be greater at Safeway than at other stores.
>
> We will at all times be competitive subject to the restrictions of applicable laws dealing with retail pricing.
>
> However, we will not initiate or be the first to make sales below cost or at unreasonably low prices, except when necessary to avoid or minimize loss due to spoilage of perishable products; to move or liquidate surplus supplies of seasonal products that have or are about to become obsolete; to dispose of imperfect or damaged products; or to close out products to be discontinued.

As noted, a basic part of Safeway's pricing policy is in compliance with the letter and the spirit of Federal and Provincial laws dealing with retail prices.

These include Section 33 (A) (b) of the Combines Investigation Act (R.S., c. 26, S.1) which provides:

> 33A. (1) Every one engaged in a business who—
>
> (b) engages in a policy of selling articles in any area of Canada at prices lower than those exacted by him elsewhere in Canada, having the effect or tendency of substantially lessening competition or eliminating a competitor in such part of Canada, or designed to have such effect; or
>
> (c) engages in a policy of selling articles at prices unreasonably low, having the effect or tendency of substantially lessening competition or eliminating a competitor, or designed to have such effect, is guilty of an indictable offence and is liable to imprisonment for two years.

In view of Safeway's policy to sell at the lowest possible prices that will enable its stores to operate profitably, it is not surprising that over the years there have been some complaints made that Safeway had violated this statute. Safeway has been able to demonstrate to the Director of Investigation and Research, and to the Restrictive Trade Practices Commission, that Safeway's prices and pricing policies have been in full compliance with the law. A copy of one such final decision is attached as Exhibit "B".

(*See Exhibit "B" following this text.*)

Also of interest are the following comments by the Restrictive Trade Practices Commission in its report dismissing a complaint growing out of new low prices on cigarettes, candy and gum sold by the Edmonton branch of Macdonalds Consolidated Limited to certain of its small independent customers:

> The grocery trade in Canada and in some other countries as well has been profoundly affected by the development of chain stores and supermarkets. It has been brought out in this inquiry, and indeed it is a matter of common trade knowledge, that constant efforts are being made to reduce to a minimum the distributive costs for the supply of goods to chain stores and supermarkets. In this competitive situation various means are being employed to assist independent merchants to compete successfully with mass distributors. Among the means used have been the development of co-operative chains of retail merchants and the cost-plus systems of mechandising referred to earlier in this report. In both cases, efforts are being made to reduce the cost of supplying goods to the independent merchant to the lowest possible level. When reduction in costs is made in a competitive situation of this kind not only is the retail merchant assisted but the consuming public benefits from the lower margins which reflect the reduction in distributive costs. (Page 61, Restrictive Trade Practices Commission, Report Concerning the Wholesale Trade in Cigarettes and Confectionery in the Edmonton District, Combines Investigation Act, Ottawa, 1958.)

An equally important part of Safeway's basic operating policy is fair dealing with its many producer and processor suppliers, whose well-being is essential to Safeway's success.

This policy of fair dealing is implemented through our localized, decentralized method of procurement, and our practice of purchasing on the basis of our suppliers' quoted or list prices, without any haggling, negotiation, or "counter offers".

With the principal exception of private label merchandise, the products we purchase are procured on a decentralized basis by our various retail division and zone buyers.

The reason Safeway buys private label merchandise on a centralized basis is that this is how Safeway—whose reputation stands behind its brands—can be assured of the necessary continuity of supplies, quality and label. Incidentally, our private label products which are of just as high quality as advertised brands, but which sell for lower prices, today represent better than ever values for the budget-conscious housewife.

An additional help we give to producers of agricultural products is to use price and other promotions to assist them in moving burdensome supplies into consumption. These lower retail prices not only assist producers, but also result in extra good values to consumers. These values frequently vary from week to week; however, by judiciously planning her shopping to take advantage of products which are in plentiful supply, the housewife can effectuate some very real savings in her budget. To give perspective to my testimony, I am submitting as Exhibit "C", Safeway's 1958 Statement to the Royal Commission on Price Spreads on Food Products, which conducted its inquiry under the chairmanship of Dr. Andrew Stewart.

(*Exhibit "C" tabled but not reprinted in these proceedings.*)

We wish to reaffirm the statements of policy and principles contained in that statement, and particularly those with respect to pricing, promotion, and profitability of food retailing which are of interest to this joint committee, just as they were to the earlier royal commission. We strongly recommend that the operating data we submit to this committee be considered as an updating of the similar data requested by and submitted to the royal commission up through the year 1957.

For example, Safeway's consolidated sales volume has approximately doubled since 1957, with the year-by-year trend as follows:

	Sales in Millions
1957	$214.8
1958	232.6
1959 (53 weeks)	248.7
1960	261.2
1961	285.9
1962	309.7
1963	340.0
1964 (53 weeks)	376.2
1965	400.9

And for the first 36 weeks of 1966, sales ran more than 10 percent over the corresponding period in 1965.

We take pride in this record of accomplishment, regarding it as evidence that Safeway has kept pace with the population and economic growth, and has increasingly served the shopping needs and wants of supermarket customers.

In response to shoppers' needs and wants, Safeway has modernized and enlarged, and increased the number of its retail stores:

> from 170 stores at the end of 1957, to 207 stores at the end of 1960, to 241 stores at the end of 1965; and to 247 stores as of September 10, 1966.

Stated another way, we have increased our total square feet of selling space from 1.5 million square feet at the end of 1957, to 3.7 million square feet today.

More than one-third of our stores are less than five years old, and three-quarters are less than ten years old. More important, our construction and modernization program has enabled us to make available to our

customers broader assortments, including higher quality and more convenient foods and non-foods at lower retail prices.

As we have expanded our operation and grown with the economy, we have afforded an ever-increasing market for producers and suppliers. The Safeway family of employees has also grown from 5,241 employees at the end of 1957 to 10,570 employees as of September 10, 1966. We are very proud of the growth and the contribution that both the company and the employees are making to Canada's expanding economy.

It is also to be noted that as Safeway has expanded, its payment for taxes at all levels—local, provincial and federal have increased substantially.

On a consolidated basis, Safeway's income statements show the following percentage breakdown of Safeway's sales dollar between 1957 and 1965:

(a) Our realized gross profit *increased* from 16.32 per cent of sales to 18.88 per cent, an increase of only 2.56 percentage points.

(b) But, our operating, administrative and other expenses *increased* from 11.37 per cent of sales to 13.73 per cent, an increase of 2.36 percentage points.

(c) And, as a result of increases in corporate income tax rates, our net operating profit after taxes has *decreased* from 2.64 per cent of sales, to 2.56 per cent.

Between 1957 and 1965 our net operating profit actually fell to a low of 1.73 per cent of sales in 1960, due to the "cost-price-tax squeeze" that existed during those interim years. This interim decline in our net operating profit occurred despite the fact that we were adding longer margined non-foods and convenience items, and constantly increasing the efficiency of our operations.

Our consolidated income and expense records for 1966 will not be finalized until after the end of the year, but our estimate of results for the first 36 weeks of 1966 indicate a slight further broadening of the gross profit rate on sales, which is in considerable part offset by further increases in operating costs and income taxes. If there are no changes before year-end, it appears that 1966 will show a further recovery in our profit rate on sales, as compared to 1965, of perhaps one-quarter of one percentage point, or of one-quarter of one cent on each dollar of sales.

Net profit percentage rates on sales are the most meaningful measures of profitability when considering the "retailer's (net) share" of the consumer's purchase dollar. However, for other purposes such as capital allocation and investment opportunities, "return on investment" are often calculated. But, in making such calculations, it should not be overlooked that Safeway leases rather than owns most of the buildings and land occupied by its store and other operations, and therefore has contingent liabilities not shown as part of a "traditional" balance sheet. For the year 1965 Safeway's net profit return on "net worth" was 15 per cent; but when lease obligations are capitalized—which is reasonable in view of the potential liability—the net profit return amounted to only 7½ per cent of total investment employed. In either event, these rates on investment were substantially below those of 1958, despite identical net profit rates on sales in 1965 and 1958. I feel this illustrates the increasingly greater requirements for investment capital in modern food retailing.

On Mr. James' suggestion, I had special breakdowns made of Safeway's reported operating and administrative expenses. To show trends, these are expressed as percentages of sales for the years 1957 and 1965:

(a) Total employee cost, including salaries, wages, and employee "fringe" benefits, increased from 6.38 per cent of sales in 1957, to 7.91 per cent in 1965, an increase of 1.53 percentage-points on sales.[1]

(b) Occupancy costs increased from 2.44 per cent of sales in 1957, to 3.78 per cent in 1965, an increase of 1.34 percentage-points on sales[2]

As shown earlier, the total increase between 1957 and 1965 in our realized gross profit rate has been only 2.56 percentage-points, despite the addition of longer-margined non-foods and convenience items. But, the increase in our total employee and occupancy costs, has been an even larger amount, 2.84 percentage-points on sales.

The fact that over the last nine years Safeway's realized gross profit rate increased by less than the combined increase in its employee and occupancy costs, demonstrates conclusively that Safeway is continuing to serve the consumer at the lowest possible prices, and is constantly increasing efficiency.

But, some persons have questioned whether retailers' advertising and promotion expense is adding to the cost of the food and other products bought at grocery stores. I personally feel that this concern grows out of a misunderstanding of the vital function advertising performs, under our free enterprise system, in stimulating demand and reducing manufacturing and distribution costs. In any event, I can advise that between 1957 and 1965, Safeway's net advertising and promotion expense, actually decreased from 0.76 per cent on sales to 0.69 per cent on sales.

While our gross advertising expense in 1965 was 1.07 per cent on sales, the cost to us was reduced by 0.38 percentage points as a result of advertising allowance offers from suppliers on which we performed by extra promotion of the suppliers' products in our retail ads and store displays.

Our views concerning the "appropriateness" and the economic impact of grocers' promotional activities were summarized on pages 8 and 10 of Exhibit C. In general, we regard all the facets of modern grocery merchandising as varied forms of "promotion"—including the ranges of products offered, the facilities in which offered, the prices at which offered (regular and special), and the accompanying advertising and other customer-attracting activities. Each retailer competitively seeks that combination of products-prices-services which customers exercising free choice regard as the best values, in the composite, and to which they respond with their patronage. This is our free enterprise system, which enables us to enjoy higher quality, more varied and nutritious foods, purchased in more convenience, and at a smaller portion of the consumer's disposable income than in any country other than the United States.

Mr. James also suggested that Safeway's "markup policy" and the recent historical record on representative items would be of particular interest to committee members. A fairly extended discussion of Canada Safeway's views and practices with regard to retail pricing and markups is set forth on pages 2 and 6 to 8 of Exhibit C.

By way of summary we do not and could not arbitrarily affix or add on pre-determined markups to item costs—either, as absolute amounts or as

[1] While sales increased 87 per cent, employee costs increased by 131 per cent—and now amount to nearly 60 per cent of our total operating and administrative expenses.

Safeway's policy is to pay wage rates and grant wage increases on a parity basis in each area in which it operates. As indicated by the Dominion Bureau of Statistics, these are variable factors City by City, and Province by Province.

[2] "Occupancy Costs" include rentals of building and equipment, depreciation and amortization on owned facilities, repairs and maintenance, taxes and licences, utilities and insurance.

percentages. Instead, our retail markups are the result of buying competitively on wholesale or primary markets, and of selling competitively at retail. Stated somewhat differently—we buy an item on the competitive market, and therefore can at the time or at some later time determine our "cost", or approximate cost. This cost changes from time to time, and from area to area. The cost is one, but only one factor, that we consider in determining the price at which we will attempt to sell the item. Other factors include, for example, the seasonality of the item; the price at which we and competitors have been selling the same or similar items; how much of the item we believe we will sell at one price versus another price; the "psychological" impact of certain prices; the particular merchandising plan currently being used by us, and those being used by our competitors. After considering these and other factors, the local Safeway staff will frequently disagree as to the "best" price, with the decision then being made by consensus. If the initial price so determined proves ineffective, we may try one, two, or three other prices before settling on one, or possibly deciding to discontinue the item. It is only after we finally settle on the "best" price, that we are able to calculate a "markup" for that item.

But, again, that markup will change from time to time, perhaps as our cost changes without any change in the retail price; or consequent to changes in merchandising plans or other competitive activity at retail, in which case we might decide to reduce or increase the retail price even though there was no change in our cost.

As put by one analyst of grocery pricing practices, "Markups are price-determined rather than price-determining."

On the first few pages of Exhibit "D" is a tabulation for about 90 grocery items which shows recent regular prices and markups on numerous suppliers' brands, as requested by Mr. James. In addition, changes from a year ago are shown for both the regular prices and the markups for those items, together with recent advertised special prices. Also shown are the regular and recent ad special prices of a number of comparable items processed or purchased by Safeway under a private label.

(*See Exhibit "D" following this text.*)

This is not intended as an exhaustive listing of the thousands of items handled in the grocery departments of our stores, or of the price and markup variations that exist in the different market areas in which we operate. Rather, within the limits of time and available data, it was drawn up to give a fairly broad representation of pricing practices and resulting markups, as of the stated dates, in a major Canadian city, on important volume "staples" stocked in the grocery department. The details would no doubt be different (though the general picture and conclusions are the same) if similar data were obtained for different cities or for different dates, because pricing discretion is highly decentralized in Safeway, so that we may be competitive in our buying and in our selling, continuously, in each market which we serve.

It should be clarified that "markup" for the purpose of this tabulation was defined as the difference between the regular retail price and the laid-in warehouse cost (before deducting cash discounts), expressed as a percentage of the retail price. And footnote (1) below reads:

> (1) Markups are shown only for supplier brands as our records permit ready calculation of an actual *cost* on those items. Our records do not permit ready retrieval of fully comparable laid-in warehouse costs of supplier-processed items procured under Safeway's private label. For Macdonalds or Safeway-Company-processed private label items, of course, there is no actual sales transaction on transfer from plant to warehouse, and hence no comparable actual wholesale cost.

This tabulation reveals a number of highly significant facts about the grocery business which are often overlooked, not understood, or misinterpreted:

1. It will be seen that contrary to widespread publicity about generally rising food prices, some prices are up, some down, some the same as a year ago. In this tabulation of 88 grocery items stocked in mid-October of both years, regular prices were higher this year on 33 items, lower on 17, and the same on 38 items. Important items at lower mid-October regular prices this year include canned milk down one cent per tin; salad dressing down two cents on the supplier brand and down four cents per 32 ounce jar on our private label; and sugar down eight cents per ten pound bag.

2. Markups vary substantially—not only from item to item, but from time to time. Of the 47 supplier brand items tabulated, 34 mid-October 1966 markups were different from a year ago (nine higher this year, 25 lower), and only 13 were the same. Moreover, markup changes are not related to the direction of cost or retail price changes. For example, on macaroni, the regular price was one cent higher this year on a two pound package and the markup 1.5 percentage points higher.

On most of the items tabulated, higher prices were accompanied by lower markups; for supplier brand bread, price up one cent, markup down 0.7 percentage points; for butter, price up two cents, markup down 8.5 percentage points; for rolled oats, price up six cents per five pound package, markup down 1.5 percentage points. In contrast for frozen strawberries, the price was down two cents per 15 ounce package and the markup was up one percentage point.

To complete the picture, for baby foods, the price per tin was down $\frac{1}{3}$ of one cent and the markup was also down by $8\frac{1}{2}$ percentage points.

This alone should put to rest the idea or claim that retail pricing is simply a matter of escalating costs by fixed percentage margins, and hence is inflationary.

3. Despite advances in the retailers' cost and his regular price for many food items, he continues to provide the customer with substantial saving opportunities in grocery shopping. One way is to buy private labels; another is to take advantage of advertised specials; and yet another is to concentrate purchases on those foods in more plentiful supply, and therefore either down in price or up less. One example, shown in the tabulation: If the customer insisted on buying the supplier brand margarine, yes, she would have spent one cent more per pound this October than for the same purchase last October. But in mid-October she could buy our Dalewood (which we believe is fully comparable quality) at five cents per pound less than the supplier brand. And she could save another 2.3 cents per pound by watching for our ad specials.

Safeway's private label program is an important, integral part of our policy and business objective mentioned above, to provide the customer with values, and assist shoppers to economize on their food budget. In a period of numerous price advances, shippers' actual costs of their food purchases need not rise as much as might be implied by a price index for a fixed market basket. Customers can and do "beat the index" by selective shopping, and we mean to continue to give them that opportunity at Safeway.

The last two pages of Exhibit D show recent regular prices of some important meat and fruit and vegetable items, and discuss the sensitive nature of these products and the unreliability of spot date comparisons. While retailers' prices of beef are generally higher this year, you will note that we have continued to offer very good beef specials. In addition, you will note that the realized gross profit rate of our meat department has increased only fractionally this year. In fact, the largest increase in retail beef prices has been on the luxury-type steaks. However, the wholesale market for loins, also, rose a great deal more than the market for entire carcasses. Although beef retailing is a highly complex, often misunderstood problem of pricing and merchandising, the

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reason for the greater increases in the price of fancy steaks is quite simple. More people, more affluent, wanted more steaks. So prices had to be adjusted upward, both by packers on loins and by retailers on steaks, relative to other cuts, to avoid early selling-out of steaks while less fancy cuts would remain unsold and have to be thrown away.

That is not quite right. We try not to throw steaks away. We reduce the price before they go bad. That sometimes means that we have to sell them for substantially less than cost, but we hate to throw something edible away.

In addition, we adopted a program this year of even closer trimming of the fancier beef steaks and roasts—that is, an intensification of our long-standing close-trim program on carcass meats which has established Safeway as a value-merchandiser of meats. Although this contributed, in part, to the increase in the steak retail price, we are giving the customer more edible steak per pound packaged.

We hope that the material we have been able to gather in the limited time since your invitation, will aid the joint committee in better understanding and appraising the operations of our firm, in which, frankly, we take a great deal of pride. We in Safeway share the concern which you and others have expressed regarding consumer price advances, particularly on foods, and inflationary forces in general. We continue as we have since we commenced business in 1929, to assure our customers that their food dollar will go farther at Safeway. For we recognize that adherence to such a program is in the best interests of our customers and our suppliers as well, and hence in the interest of Safeway. It is only good business.

The next page after page 18 should be numbered exhibit B. In some of the briefs it might not be so numbered. I am sorry about that.

Co-Chairman Mr. BASFORD: Thank you very much, Mr. Kraft, for this statement on behalf of Canada Safeway Limited. By way of questioning, I recognize Mr. McCutcheon.

Mr. MCCUTCHEON: Mr. Chairman, the brief points out that the assets of the corporation have advanced $50 million. Since when?

Mr. D. C. McGavin, Q.C., Director and Secretary, Canadian Safeway Limited: Mr. Chairman, that appears on page 4 of the brief. You will note that it also refers to the dividend policy since 1957.

Mr. MCCUTCHEON: It is over that entire period?

Mr. MCGAVIN: I might add that we speak of the policy since 1957 in respect of that amount of $112,000. Actually, since 1929 when the company was incorporated and commenced operations in Canada, there has been a policy of preserving in Canada a very substantial amount of moneys earned. There is a specific amount mentioned in the account since 1957.

Mr. MCCUTCHEON: I am concerned about advertising. We have had many witnesses here and the percentage in relation to sales has varied considerably. According to your brief—I think I am quoting correctly—you spent 0.76% on advertising in 1957 and it is reduced now to 0.69% in 1965.

Mr. KRAFT: Yes, sir.

Mr. MCCUTCHEON: Another witness before us, during this same period of time has shown an increase from .8 to 1.1. I would like to get your comments and put these on the record. Your rate of growth, with a decreasing advertising budget, apparently has gone from 285.9 in 1961 to 400.9 in 1965 or roughly 40 per cent. Another witness, in the same period of time, with a much higher advertising budget, has gone from 471 to 613, which is roughly 30 to 33 per cent. Having in mind the rate of growth, would it be fair for us to draw the

conclusion that in some instances over-advertising is not essential to the growth of the corporation and might add appreciably to the consumers' cost?

Mr. KRAFT: I do not believe I can answer that question, sir.

Co-Chairman Mr. BASFORD: It is a very good question, Mr. Kraft, I wish you would try.

Mr. KRAFT: I would think Mr. McGavin or Mr. Spelliscy might have some comment on that. Perhaps I did not understand the question exactly.

Mr. McGAVIN: What is the question?

Mr. MCCUTCHEON: May I put it in very simple language? You are spending less now on advertising than you did years ago, yet your business has increased 40 per cent. This other witness, spending more on advertising now, much more, shows his business has increased 30 per cent.

Mr. KRAFT: We are spending more in dollars but less slightly as a percentage of sales. I do not know what form of advertising the other person subscribes to, whether all the advertising moneys that he spends are necessary or not. I do not know that. He apparently thinks it is, or he would not be doing it.

Mr. SMITH (*Simcoe*): Do you have bonus coupons or premium stamps?

Mr. KRAFT: Are you referring to trading stamps?

Mr. SMITH (*Simcoe*): Trading stamps.

Mr. KRAFT: We do not use trading stamps.

Mr. SMITH (*Simcoe*): Have you ever used them?

Mr. KRAFT: In a very small way, for a very short period only, in a few stores at the head of the lake, and they were discontinued.

Mr. SMITH (*Simcoe*): Do you give away automobiles or colour television?

Mr. KRAFT: Once in a while at a store opening, but generally not.

Co-Chairman Mr. BASFORD: That is not part of your merchandising policy?

Mr. KRAFT: No.

Mr. SMITH (*Simcoe*): What type of advertising principally do you do?

Mr. KRAFT: Principally newspaper advertising, considerable radio and some television. We have some poster showings and some busboards.

Mr. SMITH (*Simcoe*): Is your newspaper advertising price oriented? Do you feature the price?

Mr. KRAFT: Yes, we feature the price, but we also emphasize the quality of the product that we sell. Price alone without quality is not good.

Mr. MCCUTCHEON: I am intrigued by your reference on page 13 to a consensus in relation to pricing. I do not want to take the wrong inferences from this, but in certain areas it has been suggested that many merchants use as their pricing device what the public will stand. This is not your method here, is it?

Mr. KRAFT: We buy merchandise at the best price that we can, competitively. We are fully aware or we try to be fully aware of the competitive condition, so that we will not be undersold. We take into consideration various factors in finally determining or deciding on the retail price. It depends on the season of the year, the kind of product, the volume, the perishable nature of the product, the historical pattern of the item. We know, for instance, from experience, that on some items we just never can take much profit over the invoiced cost. Historically, those items are so low. On other items the price may fluctuate from season to season or from year to year. We buy at the lowest possible price and we sell at a competitive price taking into account these various factors.

Mr. McCUTCHEON: I have one more question, a hypothetical one. There has been a lot of talk in the press and on radio and on television about the effect of the lady shoppers' boycott?

Mr. KRAFT: Yes, sir.

Mr. McCUTCHEON: There has also been some comment to the effect that our committee may have had some effect. I wonder would you care to comment on the fact that on Thanksgiving weekend in certain supermarkets in this city bread was selling for two for 39. This weekend I picked up the paper, it is two for 31. Would you care to comment? Who is doing this—our committee or the housewives?

Mr. KRAFT: I could not say anything on that, sir. I do not know anything about it. There may be other factors.

Mr. OLSON: I would like to ask if Macdonalds Consolidated is a wholly owned and controlled subsidiary?

Mr. KRAFT: Yes, it is, sir.

Mr. OLSON: I notice you have a number of brand names—Safeway, Empress brand, such as the label you put on jam and pancake syrup, and so on. By the way, who packs this jam?

Mr. KRAFT: We have a company divisions that are in our subsidiary Macdonalds Consolidated. We have a jam and jelly manufacturing and packaging plant. They also manufacture a number of other items, including peanut butters, jelly powders, spices and extracts. These are excellent quality products. These are distributed through the channels of our own Safeway stores and they are also sold through channels of Macdonalds Consolidated to independent retailers.

Mr. OLSON: Is there another name for the company that is processing, or is it Macdonalds Consolidated?

Mr. SPELLISCY: Various processing is carried out as divisions of Macdonalds Consolidated. Empress is one division.

Mr. OLSON: Could you give me the names of some of the other divisions?

Mr. KRAFT: Kingston Suppliers, the Cornwall Canning Company.

Mr. OLSON: What do Kingston Suppliers process and pack?

Mr. KRAFT: That is principally a buying organization and importing organization, a branch of Macdonalds Consolidated. They did dry pack fruits for us, but do not do so now.

Mr. OLSON: This is tinned fruit, canned fruit?

Mr. KRAFT: No, dried fruit. We have a coffee and tea plant that operates under Kingston Suppliers. We have two canneries. We have a fruit cannery in the Okanagan Valley, the Cornwall Canning Company, and we have a vegetable cannery in Tabor, Alberta. We have also a frozen foods and cannery plant at Lethbridge, Alberta.

Mr. OLSON: Does the Cornwall plant process frozen food?

Mr. KRAFT: Yes, it does.

Mr. OLSON: What about the Cragmont brand? Do you have bottling works that are owned and controlled by Macdonalds?

Mr. KRAFT: No, Cragmont is packed for us under our label by an outside supplier according to a formula which we supply.

Mr. OLSON: Are these brands called Town House and Taste Tells packed by the Cornwall plant?

Mr. KRAFT: Yes, sir, in our own canneries. No, I beg your pardon, that is not quite right. We sometimes buy outside some of those labels. But usually we

try to pack enough under those labels in our own canneries. It depends upon the production, really, whether or not we can get enough product to pack.

Mr. OLSON: What about Brocade? Do you have a factory that you own and control which packs soap?

Mr. KRAFT: No.

Mr. OLSON: Do you pack this brand?

Mr. KRAFT: No. That particular product is imported from the United States.

Mr. OLSON: I am curious to know why you did not include any meat in Exhibit D to indicate what the mark-up was and the comparable retail prices between 1965 and 1966. There are no fresh meat cuts that I can find in the exhibit.

Mr. KRAFT: There is one sheet in Exhibit D, D-7, that lists a few produce and some meat items, and we have shown there the regular retail price and the special advertised prices.

Mr. OLSON: Yes, but there is no comparison there between 1965 and 1966, is there? It does not show how much you sold steak for in August, or whatever month you wish to choose in 1965-66.

Mr. KRAFT: No, we have not shown that in this exhibit. We could supply that additional information, if that is wanted.

Co-Chairman Mr. BASFORD: Gentlemen, you all know what the bell means. The Members will have to return to the House. The senators can stay here, if they wish. I would imagine, for the benefit of witnesses, that we will be at least half an hour, which gives you a coffee break until about a quarter to five.

—Upon resuming at 4.50 p.m.

Co-Chairman Mr. BASFORD: Order. I believe when we were interrupted Mr. Olson had the floor.

Mr. OLSON: Mr. Chairman and Mr. Kraft, when we were interrupted by the bell we were discussing the subsidiaries that your company and Macdonalds own and control.

Mr. KRAFT: Yes. Were we talking about that or about meat items generally?

Mr. OLSON: I suggested there were no fresh meat prices included in your presentation.

Mr. KRAFT: May I read page 8 of Exhibit "D". I think that may be of value and it may enlighten you.

YEAR-TO-DATE DEPARTMENTAL GROSS PROFITS:

Meaningful retailing markups on most individual produce and meat items are impossible to compute—on produce items because of variable sizing, trim, spoilage, and shrinkage that necessarily occurs in preparation of individual items for retail sales from the bulk shipping units purchased; and on fresh meats such as beef items because numerous alternative consumer cuts—along with salvage bone and fat—are derived from each of the primal cuts, quarters, or carcasses purchased at wholesale. That is, "cost" of the various items as priced and offered for sale at retail cannot be determined—except by highly arbitrary yield allowances or proration.

Moreover, supplies and therefore bulk wholesale costs and item retail prices of perishable fresh fruits and vegetables, for example, vary substantially and frequently, with the season, weather, and other factors affecting availability—and "distress" price reductions are often made at retail to prevent spoilage—so that any price-cost "markup" calculation on a given date for a given item can-

not be considered a valid representation of the selling margin for that product.

In addition, meats in particular are frequently specialed at substantial retail price reductions at which time movement of the specialed items increases markedly. Therefore, even for those meat department items purchased at wholesale in more or less the same form as retailed—chickens, bacon, sausage, and wieners in the above list—"markups" calculated at regular retail prices are not representative of the cost-price margins at which a substantial portion or bulk of the sales occur. Examples: At October 14, 1966 regular chicken price above, the "markup" was $22\frac{1}{2}$ per cent, up $2\frac{1}{2}$ percentage points from a year earlier; but at ad special prices in a few preceding months, markups ranged from $3\frac{1}{2}$ per cent to 15 per cent. At the October 14, 1966 regular price for No. 1 bacon above, the "markup" was $24\frac{1}{2}$ per cent, up 2 percentage points from a year earlier; but at recent ad special prices, markups were at 21 per cent, 14 per cent and 11 per cent.

With such variations in perishable product availability, and in costs, retail item prices, specials, "markups", and movement, the results of a retailer's flexible pricing and merchandising of produce and meats is better shown in departmental gross profit rates over a period of time, than in item "markups" on any given date or dates. This year to date this Safeway Division's gross profit rate on sales for the produce department was 0.49 percentage points higher than a year earlier, and for the meat department 0.71 percentage points higher than a year earlier. Were these increases "removed" from present retail prices, it would reduce the price of a 10-cent-per-pound produce item by only $\frac{1}{20}$ of one cent per pound, and a 75-cent-per-pound meat item by about $\frac{1}{2}$ of one cent per pound. Incidentally, advances in retail store employee cost ratios to sales more than offset the division's gross profit rate increase for the produce department, and partially offset it for the meat department.

Mr. Olson: That is helpful, but when you say in the first, second and third paragraphs that it is difficult if not impossible to produce the markup in your meat department, I have before me the presentation of Dominion Stores and they have presented us with the store gross margin percentage on meats for the first and second half of every year up to and including the first half of 1966. We also have a chart showing the gross markup on meat from Steinberg's.

Mr. Kraft: Is that the realized gross margin or gross rate? The gross rate is not necessarily the realized gross. There is a difference between them.

Mr. Olson: This is the difference, I would presume, between the cost and selling price, and the shrinkage would be another factor.

Mr. Kraft: That is the difference in rate only. But that does not mean very much. You do not realize a gross on beef until you sell it. The gross rate is a different thing from realized gross.

Mr. Olson: I understand very well about that, but I think we have to have a percentage markup based on the price that you pay for beef. If the total cost of a side of beef turns out to be X dollars, and the markup is what you get from it when you put it on the shelf, and you do that for X dollars more—surely then you can find a percentage? I suggest this is what Dominion and Steinberg's have done.

Mr. Kraft: I do not mean to discount Dominion Stores and Steinberg's. They are smart operators.

Mr. Smith: But you are questioning their figures?

Mr. Kraft: I am questioning how meaningful their figures are because a difference in realized gross is entirely different from the rate of gross as established or as projected on a chart. You cannot really say that we realize 20 or 25 per cent on a carcass of beef because the chart says we do. You do not know if they sell all the cuts at these prices. We know there is "distress" selling

and that there are specials. We know that not every part or everything is sold—some of it is reduced in price. There is a big difference between a gross projection on a chart and a realized gross.

Mr. OLSON: In your accounting procedures do you take into account the total of all goods purchased for a meat department in a store, and do you have the total receipts for the sale from that department of the same store?

Mr. KRAFT: We attempt to calculate the entire receipts for an entire meat department. We have these on our check stand cash registers where our checkers are supposed to tabulate each meat item. If a checker makes a mistake and rings it through as groceries, it still does not come out as meat. On the other hand if groceries are run through as meat, it will inflate the realized gross. One really does not know—

Mr. OLSON: You are not suggesting that these human errors are going to have a significant effect on the amount taken in by a meat department?

Mr. KRAFT: I am suggesting, sir, that we cannot determine precisely the actual gross realized on a carcass of beef. We can determine the gross realized for the meat department, for the entire meat department. We do not account separately for the fish sold, the chicken sold, the beef sold, the lamb sold, the pork sold; we just cannot do it. It might be done, but is almost impossible; it would be a tremendous task.

Mr. OLSON: You are suggesting to me you do not have any accurate way of setting down a formula you could use to mark up the price of the meat you take in after you have it cut up and the price it will be for those various cuts?

Mr. KRAFT: We have some charts, but they are only charts; they are our yardstick; they are our guide: they are not actual; they are not factual.

Mr. SMITH: Could I ask a supplementary question to that? In spite of your charts and your guidelines, does not the product of a side of beef vary from store to store and according to the quality of butcher you have in that store?

Mr. KRAFT: It varies immensely. You cannot say because a chart projects 20 or 25 or 28 or 18 per cent on beef that you will realize that, not at all. It depends first on the quality of the animal. Some carcasses have more waste than others, and beef you may pay 46 cents a pound for ends up in the fat can and you get 2 or 3 cents a pound for it. The carcasses are not uniform; the season of the year makes a difference; the weight of the carcass. You can attend a 4-H beef show and buy their best beef—

Mr. OLSON: Surely, this happens to everybody cutting up beef.

Mr. KRAFT: Yes, but with respect to the other submissions—and I do not know exactly what they have said, because I have not seen any of them—I am suggesting they do not really know what they realize precisely for all the carcasses of beef they sell, although they may have charts.

Mr. OLSON: One more question before I get back to this other subject I want to expand on. You get in a side or quarter of beef, or however you buy it. If you have no percentage of mark-up or guide, how much do you know you are going to sell hamburg and beefsteak for?

Mr. KRAFT: We set our price at retail on a competitive basis; we have to be competitive.

Mr. OLSON: You mean that retail price bears no relationship to the cost price?

Mr. KRAFT: I said earlier, sir, that cost is a factor and it is an important factor to take into consideration in setting the retail price of produce or anything we sell, or beef; but that is not the entire factor. The main thing is we have to buy the product right, and we have to sell it right, at a competitive

price, quality and trim considered, and there is a big difference in the way the beef is trimmed.

Mr. OLSON: I think we are arguing over probably less than 1 per cent of the total product in so far as this being dead accurate is concerned, are we not?

Mr. KRAFT: That is an unknown quantity. You just do not know, because you do not know what the trim is and how much you sell at a special price.

Mr. OLSON: Does not the trim remain fairly constant from one day or week to the next?

Mr. KRAFT: Not necessarily. It depends on the ability of the meat department manager, for one thing, in his buying. He may over-buy and have excess shrinkage and excess facing. We have a difference sometimes in the store meat department of as much as 10 or 12 per cent. Why, when the prices are supposed to be uniform? The difference, in part, is in the manager.

Mr. OLSON: I want to leave this for a minute, but there are two or three other areas I wanted to talk about respecting the subsidiaries before we get by.

Do you have any egg-grading stations that buy eggs from producers but are controlled by Safeway or the Macdonalds Consolidated Company, or a division of one of the two companies?

Mr. KRAFT: Yes, we buy eggs direct from selected poultry producers, and we operate our own egg plant in Vancouver.

Mr. OLSON: Egg producing or grading plant?

Mr. KRAFT: No, we do not produce any eggs. We buy from selected egg producers. These egg producers, to comply with our standards, are required to arrange for refrigeration on the farms of the eggs, and they go under refrigeration as quickly as possible. They are picked up at the farm on our own refrigerated truck. They are taken to our own egg plant where temperatures are properly controlled and where they are graded, candled and packed in cartons, and are delivered to our own stores where, again, they are kept under refrigeration and proper temperature control. We have the best eggs it is possible to get and the freshest.

Mr. OLSON: You have got in a pretty good commercial there.

Mr. KRAFT: It is the truth, sir.

Mr. SCOTT (*Danforth*): All commercials are the truth!

Mr. OLSON: What percentage of eggs sold in your Safeway stores are handled through egg-grading stations that buy direct from the producers—not completely accurately, but close—half or 75 per cent or 100 per cent?

Mr. KRAFT: Practically all the eggs—

Mr. OLSON: Practically all?

Mr. KRAFT: No, I have not finished, sir. Practically all the eggs we sell through our stores are purchased direct from producers and handled through our own egg plants. We have an egg plant in Winnipeg, one in Edmonton and one in Vancouver.

Mr. OLSON: What about dairy produce? Do you have any creameries that buy from the producers and do all the processing of the dairy products—ice cream, butter and so on?

Mr. KRAFT: Yes, we operate some dairies for fluid milk products and ice cream plants. I would like to call on Mr. McGavin, the secretary of our company, who incidentally knows a lot about milk and our milk marketing operations, to tell you something about our dairy plants and how we operate them.

Mr. OLSON: Just for the moment I was interested in trying to establish how much of the producing and of your supplying companies you have control of. We probably can get back to the details of the dairy operation later on.

Mr. KRAFT: We have three milk plants: one in Vancouver, one in Edmonton, and one in Winnipeg.

Mr. OLSON: Would these three plants supply to your Safeway stores most of the butter and ice cream you sell?

Mr. KRAFT: Not butter, sir. These plants supply, in Vancouver all the milk and milk products that we sell, practically. This milk, again, is purchased from selected dairy farms and handled in stainless steel tanks, is picked up on refrigerated trucks, and that kind of thing.

Mr. OLSON: Do you have any controlling or substantial interest in any meat packing plants?

Mr. KRAFT: None whatsoever.

Mr. OLSON: None whatsoever?

Mr. KRAFT: None whatsoever. I am sorry, sir, we have some three ice cream plants: one in Vancouver, one in Edmonton, and one in Winnipeg.

Mr. OLSON: Mr. Chairman, I have a lot more questions, but perhaps I should pass for a few minutes.

Mr. SPELLISCY: There is just one slight correction. You asked about butter. We do not produce our own butter. I think Mr. Kraft said, "Yes," but it does not include butter.

Mr. KRAFT: No, we do not produce butter at all.

Mr. SMITH: Or cheese?

Mr. KRAFT: No, nor cheese—except cottage cheese.

Mr. URIE: Mr. Kraft, just to follow along, do you have any feeder stations for cattle which your subsidiaries own or control?

Mr. KRAFT: No, we buy all our carcasses from recognized slaughterers and packing plants—all beef and all meat products; we do not produce any.

Mr. URIE: Did you at one time?

Mr. KRAFT: No, sir.

Mr. URIE: The same goes for chicken and poultry products then?

Mr. KRAFT: Yes.

Mr. URIE: You have none at all?

Mr. KRAFT: No.

Mr. SMITH: Supplementary to Mr. Urie, do you provide financing for any of the egg or poultry suppliers?

Mr. KRAFT: No, sir.

Mr. URIE: May I just review what I understand to be the corporate structure of your company, and then come to questions which arise from it?

Your company is a wholly-owned subsidiary of Safeway Stores, Incorporated?

Mr. MCGAVIN: Yes, that is right.

Mr. URIE: Then, you have in Canada two wholly-owned subsidiaries—Wingate Equipment Lessors Limited and Macdonalds Consolidated Limited.

Mr. MCGAVIN: Yes, which are subsidiaries.

Mr. URIE: Of Safeway, but wholly-owned?

Mr. MCGAVIN: Yes.

Mr. URIE: But, what are the divisions of Macdonalds Consolidated?

Mr. MCGAVIN: Mr. Kraft has enumerated these previously. The names he has given are Empress, a division of Macdonalds, and Kingston.

Mr. URIE: What is Empress? Some of these have come up, but Empress is what?

Mr. KRAFT: Empress Manufacturing.

Mr. URIE: Where is it situated?

Mr. KRAFT: In Vancouver.

Mr. URIE: What does it manufacture?

Mr. KRAFT: Jams, jellies, spices, extracts and peanut butter. Those are the principal items.

Mr. URIE: Under private label?

Mr. KRAFT: Yes, under private label.

Mr. URIE: And the whole production is taken by Canada Safeway?

Mr. KRAFT: No, by Macdonalds Consolidated.

Mr. URIE: And Macdonalds Consolidated market them not only to you but to other independents?

Mr. KRAFT: That is right.

Mr. URIE: What is Empress?

Mr. KRAFT: That is Empress Manufacturing Company.

Mr. MCGAVIN: Another name mentioned was Kingston Suppliers, and Mr. Kraft mentioned that as a buying organization.

Mr. URIE: What does it buy, and where is it situated?

Mr. R. G. Spelliscy, Area Comptroller: It is situated in Vancouver, and it buys many products.

Mr. URIE: Is it a wholesale house?

Mr. SPELLISCY: No, strictly procurement.

Mr. URIE: And all of its purchases are marketed through Canada Safeway?

Mr. SPELLISCY: Macdonalds Consolidated.

Mr. URIE: And some goes to the independents too?

Mr. SPELLISCY: That is right.

Mr. URIE: Then we have one in the Okanagan Valley.

Mr. KRAFT: We have two plants, one at Summerland, British Columbia, in the Okanagan Valley. It cans fruit, and that fruit is sold again through Canada Safeway Limited. All of it goes to Macdonalds Consolidated first, and it is sold through Canada Safeway Limited and to independent retailers. We have a vegetable cannery at Taber, Alberta. It cans vegetables which are sold similarly. We have a cannery and a frozen foods warehouse in Lethbridge where vegetables are canned, and where also the freezing of vegetables takes place. These are sold through our own stores, mostly.

Mr. URIE: Does Macdonalds have any other divisions or companies?

Mr. KRAFT: We have a coffee and tea roasting and blending plant, or packing plant, in Vancouver. It packs coffee and tea for Macdonalds Consolidated, and that again is sold through Safeway under a private label, or through wholesale to independents. There is a label which, in this instance, is reserved to the independents.

Mr. URIE: Are there any other divisions, now?

Mr. SPELLISCY: That should be about right.

Mr. URIE: What about Jasper Dairy?

Mr. MCGAVIN: Jasper Dairy is an Alberta corporation operating a milk processing plant in Edmonton.

Mr. URIE: In Edmonton?

Mr. MCGAVIN: Yes, in Edmonton.

Mr. URIE: You mentioned that Canada Safeway operates milk and ice cream plants. Are they under the heading of Jasper Dairy?

Mr. McGAVIN: Jasper Dairy operates the one processing plant in Edmonton.

Mr. URIE: The others then are—

Mr. McGAVIN: The others are Canada Safeway itself.

Mr. URIE: Does Wingate Equipment have any subsidiary divisions?

Mr. McGAVIN: As mentioned in the brief at the bottom of page 3, the only other subsidiary is Wingate Equipment Lessors Limited, a Canadian non-operating corporation organized and incorporated in 1940 to finance the purchase of equipment.

Mr. URIE: I see. All the equipment Canada Safeway has is financed by that company?

Mr. McGAVIN: When you say "all the equipment" I would modify that by saying that substantially all of the equipment is owned by Wingate.

Mr. URIE: Now, among the exhibits you gave us—I am not sure whether you gave me this or not, but I have here from The Financial Post Corporation Service a list of sales of Canada Safeway running from 1961 to 1965. Do you have any of that information with you, or shall I read this into the record?

Mr. McGAVIN: We filed as Exhibit A the 1965 annual report of Canada Safeway Limited, which contains sales and other information for the two years, 1964-65. I do not have information with respect to prior years here.

Mr. URIE: I wonder if you would get us that information? The other companies have supplied it to us.

Mr. McGAVIN: I will. That is for 1960 on?

Mr. URIE: Yes. Now, the net profit as a percentage of sales is shown in your brief, I believe, to be 2.56. We would like to have those percentages for all the years from 1960 to 1965.

Mr. McGAVIN: We appreciate that, and we will furnish that information to the committee.

Mr. URIE: Could you tell me and the members of the committee what the gross sales of your parent company in the United States are, and also the net profits as a percentage of sales of that company?

Mr. McGAVIN: I am sure you realize, Mr. Urie, that Mr. Kraft and the representatives of the company who are here are representatives of Canada Safeway Limited. We can give you certain information that compares with the published report of Canada Safeway Stores, if you wish—

Mr. URIE: I would like to have that.

Mr. McGAVIN: Now, your first question, Mr. Urie—

Mr. URIE: What were the total sales over as many periods as you can give us them for?

Mr. McGAVIN: I am reading now from the annual report of Safeway Stores Incorporated. For the year 1965 the sales are shown as $2,939,043,000.

Mr. URIE: Does that include the $400 million of your sales?

Mr. McGAVIN: Yes.

Mr. URIE: Does it show the net profit as a percentage of sales?

Mr. McGAVIN: Yes, it does.

Mr. URIE: What is that?

Mr. McGAVIN: The figure for 1965 is 1.64 per cent.

Mr. URIE: As opposed to Canada Safeway's net profit as a percentage of sales of 2.56?

Mr. McGAVIN: Yes.

Mr. URIE: Do you have a percentage of profit to net sales of your parent company?

Mr. McGAVIN: Yes. This statement proceeds from the year 1960 to 1965.

Mr. URIE: Can you give those figures to us for the years from 1960 to 1965?

Mr. McGAVIN: In 1960 the net income as a percentage of sales was 1.41; in 1961 it was 1.44; in 1962 it was 1.56; in 1963 it was 1.69; and in 1964 it was 1.77.

Mr. URIE: And in 1965 you said it was what?

Mr. McGAVIN: I have already given the figure for 1965, and it is 1.64 per cent.

Mr. URIE: But you have not those figures for your own company other than for the years 1965 and 1966?

Mr. McGAVIN: 1964 and 1965. We will furnish those figures for the years from 1960 on.

Mr. URIE: Very well. Have you any explanation as to why your net profit as a percentage of sales would appear to be at least one per cent higher in Canada Safeway than it is in your United States parent company?

Mr. McGAVIN: Firstly, I repeat again that we are here representing Canada Safeway Limited, and when I say "representing" I mean we do not have detailed knowledge regarding the operations of the parent corporation. But, there are some general observations I might make which might be of interest to the committee. Generally, I think it can be said that you are dealing with two different economies. The parent corporation carries on its operations largely in the United States. It does have operations also in the United Kingdom, in Germany and in Australia. Now, the results of those various operations are combined in the over-all statement of Safeway Stores Incorporated. With different economies different factors of all kinds which affect those different economies come into the picture. These different factors no doubt have an effect on returns in Canada and the United States.

Mr. URIE: Would it be fair to say that the return on the investment to the investors in the United States is considered to be adequate—that the percentage which they are presently obtaining is satisfactory? Otherwise, they would raise it somehow or other, would they not?

Mr. McGAVIN: I do not think I could make any comment on that, Mr. Chairman.

Mr. URIE: As a businessman would you not suspect that that would be the case?

Mr. KRAFT: May I speak to that?

Mr. URIE: Yes.

Mr. KRAFT: I do not consider they are adequate. I would suggest that the reason why they are as low as they are—and they are too low considering the risk and the investment; from what little I understand about the operations, I feel that they are too low—is to be found in the different competitive situations.

Mr. URIE: When you speak of competitive situations, would you say that the competitive situation in your western Canadian market is not as tough or stringent as that in the United States?

Mr. KRAFT: I do not know about that. I like to think also that maybe we are a little more efficient here.

Mr. URIE: Do you think you could pass some of that efficiency on to the consumer, perhaps, by reducing the profit you are obtaining?

Mr. McGAVIN: If I might interject, although you have not put the question in that form, I think the suggestion is that because there is a higher percentage profit in Canada "prices" are higher here. I would like to point out that the fact

of a net profit in Canada being higher does not necessarily have a necessary relation to prices. In other words, an operator with low prices and providing the quality services the public desires develops a volume and satisfies the requirements for doing so, and by efficient operation a large volume makes an increase in net profit; but because net profit is there does not mean that the prices are in any way not competitive. In this respect, I would refer you to the brief in which we set out the Canada Safeway policy.

Mr. URIE: Do you not think that if you reduced prices somewhat, the volume would be even higher and the efficiencies greater and your net profit would sustain its present level?

Mr. McGAVIN: Again, I would refer you to the pricing policy of the company on page four of the brief, and so the company lives and operates on this policy. I would also refer briefly to Exhibit "D", which shows that in addition to regular prices there are ad specials; in other words, the company is regularly as part of its merchandising program advertising and selling at these special ad prices on a regular basis.

Mr. URIE: Yes, that is quite so, sir; but in the process you have also done two things, according to this five year summary of your operations. From 1961 to 1965 your net profits increased from $5,353,000 to $10,274,000, according to this survey. Would that be about right?

Mr. McGAVIN: I have no reason to say it is in error; I have not checked the figures.

Mr. URIE: And your earnings per share in the period advanced from $66.35 to $149.88.

Mr. McGAVIN: I think I should also point out, however, that during that period there has been a substantial increase in the number of stores.

Mr. URIE: Your funded debt in 1961 was $2,479,000, and in 1965, $1,160,000, all of which was attributable to Macdonalds Consolidated Limited. There is another funded debt in connection with Canada Safeway, which would leave one to believe that the net profits have been applied in the reduction of debt. I can also point out that your capital stock investment decreased from $10,868,000 to $9,655,000, presumably by redemption of preferred stock. Would you say, Mr. McGavin, that that was indicative of the fact that with a high net profit as compared with the rest of the industry, perhaps your profits are higher than might be anticipated?

Mr. McGAVIN: I would not, with respect, agree with that suggestion, Mr. Urie. There are two points. First the funded debt in respect of Wingate Equipment Lessors Limited, and, secondly, the redemption of preferred shares in connection with Canada Safeway. In respect to those two matters, I simply say that is quite normal financial operation for a company to carry out. Firstly, reducing its debt and secondly, buying redeemed preferred shares.

Mr. URIE: I am not suggesting it is not, but I brought those figures out by reason of the fact that you just made a statement that during the period in question there had been a large expansion in physical plant, which no doubt there was, but at the same time your funded debt was reduced and your capital was reduced, and apparently your profits have gone up, net and gross.

Mr. McGAVIN: The picture, I submit, is a picture of an efficient operator, and the secret of that efficiency and that success is in large part the pricing policy you mentioned, of making goods, quality merchandise available to the consuming public at the least possible prices and having in mind always observance of the applicable laws.

Mr. JOYAL: I have a supplementary question. On page 10 of your brief you say that for the year 1965 you had a net profit return on net worth of 15 per

cent and that it amounted to only $7\frac{1}{2}$ per cent because of your contingent lease obligations. Who are the owners of the stores you are operating?

Mr. McGAVIN: I can't give you a complete list at this stage, because I don't have it, but there are many and varied owners. There are insurance companies, there are corporations in the United States who invest their funds.

Mr. JOYAL: Do you control any of these lessors?

Mr. SPELLISCY: No.

Mr. JOYAL: Have you a substantial interest in any of these lessors?

Mr. SPELLISCY: No, sir, not to my knowledge.

Mr. URIE: Mr. McGavin referred to page 10 and to a return on investment method of calculating the success of your company by way of profit in contradistinction to the net profit as percentage of sales, and you say:

> But, in making such calculations, it should not be overlooked that Safeway leases rather than owns most of the buildings and land occupied by its store and other operations, and therefore has contingent liabilities not shown as part of a "traditional" balance sheet. For the year 1965, Safeway's net profit return on "net worth" was 15 per cent; but when lease obligations are capitalized—which is reasonable in view of the potential liability—the net profit return amounted to only $7\frac{1}{2}$ per cent of total investment employed.

Now, sir, in obtaining your net profit of 15 per cent on the uncapitalized method of calculation, is it not a fact that the full occupancy charges which you have referred to as a footnote on page 11 have been charges and expense to the operations of the company?

Mr. McGAVIN: I am sure they are only charged on current period.

Mr. URIE: Only for the current period; but isn't it a more legitimate calculation on your net profit to capitalize your contingent liabilities, because you are not going to run into that difficulty of—

Mr. McGAVIN: Well, this I think devolves almost into specialized accounting theories. I do think it is reasonable, however, that where a company leases its property in large numbers like Safeway it is reasonable to capitalize the cost of those leases, not merely to show them as leases without attaching a dollar value to them.

Mr. URIE: I know this is a difficult accounting argument, but the annual occupancy charges have been deducted before the net profits have been calculated.

Mr. SPELLISCY: That is right; but if we had to take the one building back because it was not successful we would have the cost of the lease of that particular store.

Mr. URIE: There is no question about that, but you also have the ability to dispose of the store.

Mr. SPELLISCY: It might be most difficult.

Mr. URIE: But the ability is there, nonetheless.

Mr. McGAVIN: I am sure that stores, perhaps not many, have been unable to be leased if for some reason they don't operate the stores.

Mr. URIE: If I may ask one more question. Do your accounting practices enable you to determine what the sales of Macdonalds Consolidated are, what part of the total sales of $400 million come from Macdonalds Consolidated, and from Jasper Dairy, and from other subsidiaries?

Mr. McGAVIN: Jasper Dairy has been acquired very recently as of September, 1966. Its sales were not included as of December, 1965, but it will be as of the end of 1966. In so far as Macdonalds is concerned, the sales of Macdonalds

to independents are reflected in this figure of $400 million for 1965, and so because it is a consolidated figure it does show there. On an accounting basis it obviously does not include sales by Macdonalds to Safeway, because Safeway also sells the goods.

Mr. URIE: What are the sales from independents for 1964? I would like them from 1960 to 1965.

Mr. SPELLISCY: We haven't them for 1964, but in 1965 they were approximately $50 million; that is an approximate figure.

Mr. MCCUTCHEON: On page 4 there is an explanation of the small amount of your holding in the United States and the great amount in Canada. Of this amount which is owned in Canada, are any of these shares of your company owned or controlled by another food company or corporation?

Mr. SPELLISCY: Not in Canada.

Mr. MCGAVIN: There are two classes of shares of Safeway Limited. First, the common shares, all of which are owned by the parent corporation. None of the common shares are owned outside. The other class is the preferred shares. I do not have the exact details as to the ownership of those shares. I do not know of any of them being owned by food corporations. I do not have the details of the exact names.

Mr. MACAULAY: In the brief it says they are all owned by Canadians.

Mr. MCGAVIN: They were sold originally to Canadians but subsequently may have been transferred to other parties.

Mr. MCCUTCHEON: I think you made it clear that there is not any interlocking, such as we discovered in another case, of another food company involved.

Mr. MCGAVIN: I think that is true, without qualification.

Senator DESCHATELETS: On page 17, on the fourth line, there is an admission and I would like you to give us a few comments on it. You say "While retailers' prices of beef are generally higher this year..." I understand that you continue to offer a pretty good beef special. We are interested when we face a situation of increased price in a certain commodity and especially on meats, which in some cases represents one-third of a supermarket like yours. You must know at least one reason why prices increase in that way. Does it lie that the price has also increased at the wholesale or producers' level?

Mr. KRAFT: We do not know that it has increased at the producer level for sure. We know that as a retailer we are paying substantially more for beef and a number of other meat products this year than we did a year ago.

Senator DESCHATELETS: I suppose you must have inquired as to the reason for this increase, because you are interested in paying as little as possible. If you are ever faced with an increased price, of course it must concern you because you would have to pass this increase over to the consumer.

Mr. KRAFT: That is right.

Senator DESCHATELETS: Could you give us some comments. We would like to know the origin of this increase and the reason, if possible.

Mr. KRAFT: I do not know actually but I would assume that beef on the hoof this year is showing a better return to the producer than it did a year ago. I do not have the figures but they can be supplied. I know that on a dressed carcass basis we are paying considerably more than we paid a year ago, three cents to four cents a pound by the carcass. That is fat and bone and everything else—sirloin steak.

Senator DESCHATELETS: This retails at a very substantial amount—when you say the price has increased at the wholesale level?

Mr. KRAFT: It does represent an increase at the retail level in the price of beef.

Senator DESCHATELETS: Did you never inquire or ask why there is such an increase?

Mr. KRAFT: We buy all of our products at the best possible price that we can, in the beginning, from all of our suppliers, be they vegetables or groceries of any kind. We buy at the best price we can.

Senator DESCHATELETS: Your explanation as to the increase in the price of beef generally for the past year? Did this increase take place at the suppliers' level?

Mr. KRAFT: Yes.

Senator DESCHATELETS: And it was passed on to the consumer?

Mr. KRAFT: There is not enough in the meat business to absorb it. It has to be passed on substantially when you operate on a thin margin of 2 or 3 per cent net on sales. You cannot absorb much, can you?

Senator DESCHATELETS: You cannot give any details as to the approximate date. Is it six months or a year ago when you noticed this substantially?

Mr. KRAFT: No, I cannot precisely, at the moment. I will get that information for you.

Senator DESCHATELETS: If it is possible.

Mr. KRAFT: We could supply information as to the various prices for meat this year as against a year ago if you want it.

Co-Chairman Mr. BASFORD: We would appreciate it.

Mr. KRAFT: I might say this—on the way through from Winnipeg the other day—this might be of interest, as we are talking about meats. There has been considerable reference in various places to the high price of sirloin steaks this year. It is true they are higher than they were a year ago. It may be that they are higher than they were a year ago in proportion to other cuts—I think probably they are—but the law of supply and demand governs. We have not in our organization in Vancouver this year been able to get enough loins of beef to be able to advertise even once. We cannot get them. There are so many people steak hungry—it may be it is because we trim them better. We know that a lot of resort hotels were filled this year and during the summertime there was such a heavy demand for steaks that you may have to raise the price of steaks a little and go down on some of the other cuts so that you sell everything, so that you do not waste or have to destroy anything. We know that, though the price of beef by the carcass this year cost more than a year ago, some meat cuts have not gone up at all, even though we are paying more. We also know that, even though beef costs more this year, when we throw a pound of fat or bone in the barrel, we probably lose an extra four cents a pound more than we did a year ago. We also know that the beef that we sell, the bones and fat that we throw in the garbage barrel, are approximately equal to the sirloin steaks or sirloin roasts in another carcass of beef. We have to even everything out.

Coming back to the mention I made of Winnipeg, when I was coming through the other day I asked my buyer "What has happened to dressed beef loins, why are these steaks so high this year?" He said "They have been very high but they have dropped 10 cents to 15 cents a pound in the last few days." I asked why and he said "This is not uncommon at this time of the year, we could buy them for less than 65 cents a pound today, but they were much higher than this a couple of weeks ago and that in part is due to the change in season, children are back in school, the weather is turning a little cooler, people are ready to eat a little heavier meals, the demand for steaks has dropped off, the resort hotels have closed, the Americans have gone back home, so there is not

the same heavy demand for steaks today that there was a while ago; I think we can get enough loins to advertise steaks to supplement the loins that we get in straight carcass beef, so that we can probably run an advertisement." I would not be surprised if you see soon that the prices are not high and there are some lower sirloin steak prices. That is seasonal.

Senator DESCHATELETS: On exhibit 7, bananas, we had officials of a supermarket here a few days ago. About bananas at retail, they said they were selling them at retail at eight cents a pound. That was Steinbergs. I notice here that you mention the regular price of bananas at 19.5 cents.

Mr. KRAFT: And a special price of 12 1/2 cents a pound.

Senator DESCHATELETS: Is the difference between eight cents, 12 cents and 19 cents due to transportation costs? Or what is the reason?

Mr. KRAFT: I do not know. Mr. Steinberg may be buying his bananas in a different market. They may have had originally a different source. I do not know, but I know we cannot buy bananas at anywhere around eight cents a pound wholesale. Bananas are soft perishable items. There can be heavy shrinkage in bananas. We were selling them at eight pounds for $1 a couple of weeks ago in Vancouver. We were losing our shirt. Why? Because we were selling them at practically the invoice price that we paid, and we bought too many, or a mistake was made in our produce warehouse. The fruit ripened too fast. It went into the stores in a fully ripened condition, and we had a terrible shrinkage loss.

That can happen on other items. It happened on seedless grapes not long ago in Vancouver. We had to distress several hundred cases of grapes at a price a lot less than what the grapes cost us. A lot less. Maybe it is faulty buying.

Senator CARTER: Nearly all my questions have been answered, but I have just two short ones left. Mr. Kraft, on page 17 you referred to your private brands and labels. Could you tell the Committee what percentage of sales is represented by private brands?

Mr. KRAFT: I am sorry, sir, we do not have that information.

Senator CARTER: Would it be difficult to procure that information for the Committee?

Mr. KRAFT: I think it would be very difficult. It would be costly and difficult to get.

Senator CARTER: We had one company before who had private brands and gave us that information.

Mr. KRAFT: You see the private brands we have are not all sold through our own stores and we do not keep records.

Senator CARTER: I am only interested in your own sales. The amount of your own sales is what interests me. What is represented by your own private brands as compared with the national brands you carry?

Mr. KRAFT: Well, we do not have that information and the only way it could be obtained would be to get private label cash register keys, I think, on the cash registers. It would be extremely costly and difficult. I do not know how we can get that information.

Maybe I misunderstood the question.

Mr. JOYAL: If you can come here and tell us that frozen strawberries could go down 02¢ on a 15 ounce package, with a 1 per cent mark-up surely you can give us the breakdown of sales on your house brands and on other brands, which is the question Senator Carter has put to you.

Mr. KRAFT: I misunderstood the question, then, sir. Was that the question, sir?

Senator CARTER: Yes.

Mr. KRAFT: The quantity of our house brands we sell versus the national brands.

Mr. URIE: Right.

Mr. KRAFT: Well, we could get some of that information on a purchase basis only.

Senator CARTER: Well, the other company provided that information voluntarily this morning in their brief. I thought it would be nice to make a comparison of the information.

Mr. SPELLISCY: We could not get the information for sales, but we could show a percentage of purchases in private brands versus outside brands. We could give you a percentage of purchases. As Mr. Kraft says, to get actual sales figures would be most difficult.

Senator CARTER: We would like the relation between purchases and sales.

Mr. KRAFT: You would like that information?

Senator CARTER: So that there would be some relationship when we look at the figures.

Mr. KRAFT: If you would like that information, senator, we will try to get it for you.

Senator CARTER: I would like what information we can get in order to make the comparison.

Mr. URIE: Purchases would be all right, sir, if we knew what your turnover was. Is it any different on your private labels from standard? Is it, for example, 2½ times or 3 times?

Mr. SPELLISCY: Again, we have not taken off figures to show you. We have not done that.

Mr. URIE: As between the two, but you have for a whole stock, such as canned goods, for example.

Mr. KRAFT: We can tell you how many thousand cases of canned peaches we pack in a season. We can do that.

Co-Chairman Mr. BASFORD: Senator Carter is looking for a statement similar to one made this morning, which indicated that, while the variety of such products is wide, in terms of total sales it is small, comprising less than 5 per cent of the total.

The senator is looking for some type of rough figure.

Mr. SPELLISCY: Tell us what figures you received from Loblaws this morning and the basis for them, and we will prepare ours on the same basis and you can make the comparison.

Mr. URIE: Dominion Stores, A & P and Steinberg's also are going to provide similar information.

Mr. KRAFT: You tell us how and we will certainly do it.

Senator CARTER: I have only one other question. At the bottom of page 13 and on the top of page 14, when you are talking about your pricing methods, you say:

> It is only after we finally settle on the "best" price, that we are able to calculate a "mark-up" for that item.

What goes before and after that statement indicates that there is a little trial and error going on which could take some time before you really arrive at the price you are going to use.

Mr. KRAFT: That is very often the case, if not usual.

Senator CARTER: Can you tell us how long that period would be? Would it be 2 or 3 days, a week, or what?

Mr. KRAFT: It depends on the commodity and there is a historical relationship on most items, over a period of many years perhaps, as to the profit that can be taken on an item to be competitive. But you have to check constantly also. You will notice here, sir, that on the first page of Exhibit D, for instance, we sell some products on a very low marginal basis. I guess the lowest one on this page is butter. We make only 1½ per cent on butter.

Now, so long as I can remember in the grocery business there has been a low margin on butter. Over 36 years ago I opened and managed one of the first two Safeway stores that ever opened in Calgary and southern Alberta, and for as long as I can remember butter has always sold on a very low marginal basis.

I do not recall when we have ever realized a per pound price on butter as much as 7%.

Senator CARTER: Perhaps I did not make myself clear. I got the impression from your brief that in the case of many items it took considerable time before you arrived at the final price that you were going to use, and I want to know how long that period would be.

Mr. KRAFT: It does not necessarily take a considerable time, sir, on an item that we have an historical background on, or some historical knowledge of. But especially on a new non-food item—and we sometimes guess wrong in our buying—it is difficult to know what we should sell the item for and what kind of profit can be realized. A price may be adjusted two or three times and maybe that item will be discontinued or kicked out completely.

Co-Chairman Mr. BASFORD: Yes, Mr. Saltsman.

Mr. SALTSMAN: Thank you, Mr. Chairman. I hope that I will not be repeating some questions that were asked in my absence.

Co-Chairman Mr. BASFORD: It being five to six, I hope not.

Mr. SALTSMAN: I am interested in your expression on page 13 of your brief where you say,

> it is only after we finally settle on the "best" price that we are able to calculate a "mark-up" for that item.

What, in your definition, constitutes the best price? In other words, what is the best price for whom and on what basis do you say it is your best price? That is right down at the bottom of page 13.

Co-Chairman Mr. BASFORD: Mr. Kraft was asked a quite similar question earlier in the afternoon.

Mr. SALTSMAN: Do you think I should pass on to another question?

Co-Chairman Mr. BASFORD: His answer as I recall it, briefly, was "the price they would move the goods at and turn a profit". I do not want to put words in your mouth, Mr. Kraft.

Mr. KRAFT: That is right. I was just trying to find where we stated it in the brief.

Mr. SALTSMAN: There have been a number of questions on the matter of private brands versus national brands.

Mr. KRAFT: Yes, sir.

Mr. SALTSMAN: Can you tell me whether there is a different pattern in the United States on the sale of private brands from the pattern that is effected in Canada? For instance, are there more private brands sold in the United States than in Canada?

Mr. KRAFT: I do not know, sir. I have not got factual information on that score.

Mr. SALTSMAN: Do you see a growth of private brands in Canada? Do you see a growth taking place in the sale of private brands versus national brands?

Mr. KRAFT: I do not have any factual information on that score either.

There are some new private brands which come along, but there are also others that slip by the wayside and sometimes are discontinued.

Mr. SALTSMAN: Do you think that there is any advantage, through an increase in the use of private brands as against national brands, from the consumer's point of view?

Mr. KRAFT: I could speak only for our own organization, and we are constantly trying to buy or pack, or arrange to have packed for us, merchandise that will give a better consumer value. And to the extent that we can find other items that can be purchased for a lower first price and will offer a better consumer value, certain additional private brands can be expected.

I think that is the situation, sir, briefly.

Mr. SALTSMAN: I would like to take a moment, Mr. Chairman, on this question of advertising consumer demand. There have been a number of questions posed to try to get an opinion on the interrelationship of this sort of thing. In your brief to the Royal Commission on Price Spreads, on page 3, you were talking about "freely-competitive profit-and-loss system of food distribution." And you said:

> A freely-competitive, profit-and-loss system of food distribution has been and always will be the most akin to "natural selection" of the most efficient methods, techniques, and marketing agencies.

That is transferring a physiological term to a commercial situation. To what extent does the customer really demand these things? To what extent is the demand stimulated and fostered by advertising? Does the consumer demand as many stores as we have? Does the consumer demand as much advertising as is taking place, or is this a decision made by the industry on her behalf?

Mr. MCGAVIN: If I might comment on this: Obviously the individual consumer does not come into the store and say "Please, build another store." This is a competitive economy, and the food industry is not regulated except in matters which come under the Food and Drug Act. But the matter of expansion and endeavouring to increase sales is one for the individual decision of the individual companies. As long as that happens and as long as that is the situation in Canada, the individual companies will continue to strive to increase their sales and in doing so they follow their own decisions as to what they consider to be the best means. You have heard evidence as to how various companies endeavour to increase their sales, and they do it at their discretion. In our brief we say the matter of advertising is very important. As you have noticed, the figures have tended to go down, but nevertheless it is a very important function. As long as you have a competitive economy, you will have companies endeavouring to increase their sales, and that means using the various methods available.

Mr. SALTSMAN: We recognize that this is a competitive economy, but if I may sum up my line of questioning—is there any indication that there is such a thing as excessive competitiveness? Is there a competitiveness that does not work to the advantage of the consumer? Can the results be that costs may be incurred which are not to the consumer's advantage?

Mr. MCGAVIN: We have no suggestions in this respect to make to the committee. Basically we say that the consumer benefits when there is a free competitive situation and although there may seem to be some examples that are not too much in the public interest, nevertheless if you eliminate or reduce the area of competition, the benefits which will be denied and the disadvantages which will flow can far outweigh the apparent disadvantages you are looking at now. In other words the competitive system has produced a standard of living

in Canada which is one of the very highest in the world. If you interfere with that process you will endanger some of those advantages.

Senator McDONALD: Where do you buy your fresh meat products.

Mr. KRAFT: We buy them from all the recognized packing plants and slaughterhouses.

Senator McDONALD: From more than one?

Mr. KRAFT: Yes.

Senator McDONALD: In one area?

Mr. KRAFT: Yes; in Winnipeg we probably buy from all the licensed inspected meat plants.

Senator McDONALD: What beef do you buy?

Mr. KRAFT: We buy the very best beef we can buy—choice and some good. Choice is red brand and good is blue brand, as you know. We buy mostly choice. Then, out in Vancouver we cut nothing but steers.

Senator McDONALD: Do you import any meat?

Mr. KRAFT: No.

Co-Chairman Mr. BASFORD: Mr. Olson.

Mr. OLSON: It is five minutes after six. My questioning will take a few minutes. I wonder if we should adjourn until eight o'clock.

Co-Chairman Mr. BASFORD: Oh, I would not want to do that. You are the last person who wants to ask questions. Be as brief as possible now. I am, of course, in the hands of the committee, but I presume they would not want to sit tonight.

Mr. OLSON: At page 18 of your summation you say that:

> More people, more affluent, wanted more steaks. So prices had to be adjusted upward, both by packers on loins and by retailers on steaks, relative to other cuts, to avoid early selling-out of steaks while less-fancy cuts would remain unsold and have to be thrown away.

When you increased the price of steaks in 1966, did the price of hamburger go down?

Mr. KRAFT: Offhand I could not answer that, but we know the beef cost us more, and the fat and bones that went into the garbage barrel cost us more.

Mr. OLSON: Was there any difference between 1964 and 1965 and between 1965 and 1966 so far as the bones in the barrel were concerned?

Mr. KRAFT: No, except it cost us more.

Mr. OLSON: When did the sides of beef cost you more in 1966. I have before me Exhibit C which was put before us by Dominion Stores for the weeks of June 13, June 20, June 27, July 4, July 11, July 18 and July 25, and in every case they show that the beef cost them five cents or so per pound less than it did in 1965. Were you unable to buy beef during those two months at a lower price than you paid in 1965?

Mr. KRAFT: I cannot answer that offhand. I would have to get those figures for you.

Mr. OLSON: Throughout the whole of the hearing, Mr. Kraft, you have attempted, I think, to leave the impression with this committee that you have been paying more for beef all through 1966.

Mr. McGAVIN: If it would be of assistance, we can supply figures for specific periods.

Mr. OLSON: The figures I need to make a valid comparison are the prices for sides of beef and hinds of beef for each week in June and July in 1965 and

in 1966. Along with that I need your regular selling price of a number of beef cuts, sirloin steak, T-bone steak, round steak, hamburger, etc. What was the regular selling price in 1965 and 1966? I am getting a little weary of being told that beef cost us more in 1966, because the evidence we have before this committee, from the producer's point of view is that the price paid for live steers in the stockyards all across Canada was lower in 1966 than 1965. Now on the basis of the evidence given to us by this particular store, they indicate they also paid less for beef in that particular time so far as purchases were concerned. All the statistics gathered by the D.B.S. and all the regular selling prices given by other witnesses show that they charged more not only for the higher-priced cuts but also for lower-priced cuts.

Co-Chairman Mr. BASFORD: You have asked for a statement of meat costs for 1965 and 1966 and the statement of selling prices for 1965 and 1966, is that correct?

Mr. OLSON: That is correct. I have asked specifically for the weeks I have mentioned, but I would like the rest of the weeks too. It does not seem it would be too great a job to compile this because several of the other witnesses have given it to us.

Mr. KRAFT: Were they from the middle of October? This report was just completed, and this is only on the basis of current prices.

Mr. OLSON: The terms of our inquiry, Mr. Kraft, require us to make an inquiry into the increasing cost of living in 1966—not only for October of 1966.

Co-Chairman Mr. BASFORD: Mr. Olson, I think I have correctly stated the statement you want. As I understand it, the witnesses are prepared to supply the statement. There is going to be a problem in your case, I think, because you are going to compare them with Exhibit C-1, I believe, which, as I recollect, were prices in Toronto. I do not think Safeway buys in Toronto; I do not know.

Mr. OLSON: We have the figures of what this was sold for in all the stockyards across Canada during the week. We can make these kinds of comparisons as long as we have these prices.

On page 16 you say—this is about 10 lines down—that for butter the price was up 2 cents compared to 1965, and the markup down 8.5 percentage points. What do you mean by that?

Mr. KRAFT: Well, if butter—

Mr. SPELLISCY: Could I answer that?

Mr. KRAFT: Yes, you go ahead.

Mr. SPELLISCY: Our markup on butter was down 8.5 per cent.

Mr. OLSON: Do you mean it is 8.5 per cent? You say "8.5 percentage points".

Mr. KRAFT: Yes.

Mr. OLSON: 8.5 per cent of what?

Mr. KRAFT: Of the gross previously realized on butter. We may have been selling butter on a margin of two or three cents a pound only—that is the retail price against cost; and if it dropped one cent or went up one cent the mark-up might be influenced as much as 8-1/2 per cent or more.

Mr. OLSON: 8-1/2 per cent of the mark-up that you were getting before?

Mr. KRAFT: Yes.

Mr. OLSON: Now, Mr. Chairman, I would like to turn or direct Mr. Kraft's attention to Exhibit D, page 1. There you have canned milk, and the brand name that you show is Alpha—and this is at October 14, 1966. Your regular selling price was 16.5 cents. You show the same selling price for Lucerne, which is your brand name?

Mr. KRAFT: Yes, sir.

Mr. OLSON: Who packs this Lucerne for you?

Mr. KRAFT: The Lucerne in British Columbia is packed for us by Fraser Valley Milk Producers' Association.

Mr. OLSON: Their brand name is Pacific?

Mr. KRAFT: Yes. In Alberta it is packed for us by the Central Alberta Dairy Pool at Red Deer, Alberta.

Mr. OLSON: This is one of the few items on which submissions have been made where the retail price for a private brand is the same as the retail price for a national brand. Do you pay Fraser Valley and Central Alberta Dairy Pool the same price for these two brands of milk?

Mr. KRAFT: There is a packing allowance for quantity purchased, and originally we did not have Lucerne milk in B.C. for some considerable time. I think it is within the last year we bought it, and it cost slightly less, and we reduced the price in the beginning by half a cent per tin under the national brands which included Alpha. That resulted, I guess, in a price battle on milk, and other milks were reduced in price in our—in the competitors' stores and, consequently, in Safeway. When the margin got down as low as it now is for other milk, we did not consider it necessary or advisable to carry the battle on any further or further reduce the price.

Mr. OLSON: Is it the same milk? Is there a different formula or different process for producing Alpha, Pacific or Lucerne; or is it all the same milk?

Mr. KRAFT: As far as I know, one is just as good as the other.

Mr. OLSON: You do not give any specifications?

Mr. KRAFT: No, it is first-quality canned milk.

Mr. OLSON: I wonder if you would answer this question: How much less do you pay for Lucerne milk than Alpha or Pacific per case?

Mr. KRAFT: I cannot tell you exactly, but possibly 15 or 20 cents a case of 48 tins.

Mr. OLSON: That is all?

Mr. KRAFT: Yes. Less than half a cent a tin difference.

Mr. OLSON: Mr. Chairman, there is one other area I would like to go into. There is no page number on this statement you have given. It is Canadian Safeway Limited 1965 Annual Report. But, anyway, under Assets you show, "Merchandise inventories at lower of cost or market, $34,957,720"—and a number of other figures there. If we add the cost, the value of your inventory to the value of your store, warehouse, plant, automotive and other equipment, plus buildings and leasehold improvements, and then subtract the accumulated depreciation from this, this would represent fairly close to the capital invested in your operation, would it not?

Mr. SPELLISCY: I do not quite follow you.

Before answering that question, I would like to sit down and see what you are getting at. I would like to make the calculation. I would hate to answer just off the cuff on a calculation like that.

Mr. OLSON: When shall we do this, Mr. Chairman, if we do not do it now? This is the last time we will have an opportunity to cross-examine these witnesses.

Co-Chairman Mr. BASFORD: As you know, we have gone through a number of witnesses, all on the understanding that these were preliminary inquiries and that if the committee at a later date felt it necessary, the witnesses would be recalled.

Secondly, I might suggest that I quite frankly did not follow your question either, but I can suggest that it can be put in writing and directed to the company, and they are required under the rules to answer it.

Mr. SPELLISCY: I might add, Mr. Chairman, we would be quite happy to answer it.

Mr. OLSON: I could give them some time to answer the question, but it seems to me there may be some other questions that would arise from the answer that was given; and what do I do about that—keep submitting more written questions?

Co-Chairman Mr. BASFORD: Could we have the question again?

Mr. OLSON: I suggested that on the Consolidated—whatever it is—and I only have half of it on this Xerox copy—

Co-Chairman Mr. BASFORD: You are looking at the Annual Report?

Mr. OLSON: I guess it is, and it is headed, "Consolidated Balance Sheet as of January 1, 1966 with comparative figures as of January 2, 1965."

On the January 1, 1966 there is an item of $34,957,720 for merchandise inventories at lower of cost or market. There is another item for $43,094,106 for fixed assets, at cost, store, warehouse, plant, automotive and other equipment; and an item for $10,273,965 for buildings and leasehold improvements. There is an item, "Less accumulated depreciation" of $23,697,545.

I am asking if these figures, adding up the $34 million, the $53 million, and then subtracting $23 million of accumulated depreciation represents a fair total for the capital invested—not "for" but of the capital invested as of this time, as of the date that it is there?

Co-Chairman Mr. BASFORD: I do not know about the witness, but I cannot understand your question, Mr. Olson. I do not know how you can ignore certain assets, such as cash, completely.

Mr. OLSON: Such as which?

Co-Chairman Mr. BASFORD: Cash, or accounts receivable.

Mr. MCGAVIN: I point out also that on the liability side shareholders' equity is shown as constituting four items, two items under Capital Stock, the one item Capital Surplus and the one item Retained Earnings. That is shown in the statement as the Shareholders' Equity in the company.

Mr. OLSON: Mr. Chairman, what I am trying to get at—and perhaps I do not understand this kind of accounting that is used here—is all of the investment in the operation of Canada Safeway Stores. I should like to know whether all of the fixed assets, such as stores, warehouses and plants, and all the other buildings, plus the leaseholds and improvements, plus the inventory—it seems to me that this must be reasonably close to the total investment required to carry on the operation. Is that wrong?

Co-Chairman Mr. BASFORD: Surely, the total investment is as shown, namely, $93 million-odd.

Mr. OLSON: I do not know if they require that amount of $16,877,000 in order to carry on the operation of their stores. Even if the total is $93 million-odd, Mr. Chairman, we then find that they had a net profit of some $20 million before taxes. That shows that there is a net return of somewhere in the neighbourhood of slightly over 20 per cent, does it not?

Mr. MCGAVIN: The figures show the net profit or return after taxes—and we suggest that this is a proper yardstick—of 2.56 per cent of sales. That is the figure we have given. If it is your wish to calculate it on an investment basis then you must take into account the fact that we lease a good many of our stores, and they must be capitalized. They are shown in the brief as 7.5 per cent. These, we submit, are appropriate figures.

Co-Chairman Mr. BASFORD: This is shown on page 10 of the brief, Mr. Olson.

Mr. OLSON: I do not completely accept a calculation on the basis of sales as being the most valid way of determining the return.

Co-Chairman Mr. BASFORD: No, but the point—

Mr. OLSON: I am trying to get at it the other way. In my probably awkward way I am trying to find out how much net profit there is before taxes, and the distribution of dividends and all the other things, in so far as the investment in the operation is concerned.

Co-Chairman Mr. BASFORD: Mr. Urie asked a long series of questions on the return on investment. He explored that line of questioning, starting with the sentence at the end of that paragraph which is to the effect that for the year 1965, Safeway's net profit return on "net worth" was 15 per cent, but when you capitalize the leaseholds it was 7.5 per cent. Mr. Urie asked a long series of questions directed towards getting the true picture on the basis of return on investment. Possibly Mr. Kraft's answers were not satisfactory to you—

Mr. OLSON: While those questions may have been answered, Mr. Chairman, there was no agreement as to the acceptance by us of the answers. However, we will explore this further at another time. I hope we shall be calling these witnesses again before the end of these hearings.

Co-Chairman Mr. BASFORD: Yes, and I think I will say, towards satisfying you, that I discussed during lunch today with Dr. James the prospect of having all of the financial statements analyzed so that we may obtain our own interpretation of them.

There being no further questions, I will declare the meeting adjourned. I would like to express on behalf of the committee our thanks to you, Mr. Kraft, and to your officials, for coming here this afternoon and giving us the statement you did, and for answering the questions put to you. I particularly appreciate your bringing the latest news from Vancouver.

Whereupon the committee adjourned.

EXHIBIT "A"

CANADA SAFEWAY LIMITED 1965 ANNUAL REPORT

Auditors
Peat, Marwick, Mitchell & Co.
Vancouver

Transfer Agent & Registrar
The Royal Trust Company
Winnipeg, Montreal, Toronto
Vancouver and Calgary

Board of Directors
Walter J. Kraft
Chairman
A. G. Anselmo
W. F. Griffiths
John A. MacAulay, Q.C.
D. C. McGavin, Q.C.

Principal Officers
Walter J. Kraft
Chairman of the Board
W. F. Griffiths
President
A. G. Anselmo
Vice-President
James Johnson
Vice-President
John A. MacAulay, Q.C.
Vice-President
D. C. McGavin, Q.C.
Secretary

CANADA SAFEWAY LIMITED

TO OUR SHAREHOLDERS:

The superlative word "best" appropriately describes the results we attained in 1965. It was the best year in our history. It was the best in terms of sales and earnings. It was the best in terms of progress. The complete details are reported on the following pages.

Particularly gratifying is the evidence of Canada Safeway Limited keeping apace with the growth of our country. While Canada approaches her centennial year, and our Company is merely 37 years of age (we began operations early in 1929), there nevertheless exists a remarkable similarity in growth. As frontiers have been pushed farther West and North in this vast domain, opening up new areas of industrial and agricultural wealth, so has Canada Safeway Limited sought to participate in each advancement. No region is too remote for our consideration of new store sites. It has been this look-ahead planning that has forged our success as one of the three largest food chain organizations in Canada, and a leader of all others in food distribution in the Western provinces.

Most recent examples include the exciting Peace River area in British Columbia, where an enormous hydro-electric project is underway; and the booming region surrounding Thompson, Manitoba, which contains the largest known nickel deposit in the world. Each has great promise of future productive growth which, of course, has not escaped our interest (see page 2, under "Construction Program").

However, progress in our business is not measured solely in terms of expansion into new territories, nor in the colourful interiors or inviting facades of our modern-day supermarkets. Most important is the reputation of our

know-how and image in terms of people. To broaden experience within our ranks and also develop a reservoir of management talent, we have steadily increased our programs of employee training.

We have been fortunate in attracting to our organization men and women who enjoy their roles in Safeway, are proud of their Company, and who show a friendliness that makes shopping in Safeway a truly pleasant experience. It is this sincere desire to maintain warm people-to-people relations that we feel is the key to our continuing success.

With an organization of 9,578 such employees, with the construction projects already underway and the others coming off the drawing boards, we are quite optimistic that new records will be set by Canada Safeway in 1966.

W. F. GRIFFITHS,
President.

WALTER J. KRAFT,
Chairman of the Board.

March 23, 1966,
Winnipeg, Manitoba.

1965 REVIEW OF OPERATIONS

Sales

Our sales of \$400,235,283 in 1965 set another new record high in our history. This was an increase of \$25,182,544, or 6.7%, over the previous record established in the 53-week fiscal year 1964. For a comparable 52-week year the increase would be 8.8%.

Net Income

Canada Safeway Limited income, both before and after provision for taxes on income levied by the Dominion and Provincial governments, also peaked to a new record. For the 52-week fiscal year 1965, pre-tax income totaled \$20,639,493; provision for taxes on income amounted to \$10,365,000; leaving net income of \$10,274,493. This compares with net income of \$9,323,256 for the fiscal 53-week year of 1964.

Impact of Scientific Research

Hunches and guesswork have no place in today's intensely complex and competitive retail food business. It is the age of the slide rule and scientific research. During 1965, Safeway continued probing for new methods and improvements in every phase of operations—from selection of store sites, plant, warehousing, trucking facilities, to cooperating with suppliers in problems of quality control—all aimed at ensuring Safeway customers of product dependability and lower costs resulting from more efficient distribution.

Construction Program

During 1965 we opened 13 new stores (6 were Safeway-built and 7 were owner-built). We closed 4 older, outmoded food stores, resulting in an increase of 9 stores retailing foods and related products. Among these were a second store in Prince George, B.C. (a third is already planned), and a new store in Dryden, Ontario. At year's end there were 241 stores in operation. Noteworthy is our current status: 33% of our stores are less than 5 years old, and 74% are less than 10 years old. Many of the remaining stores have been substantially remodeled. As we entered 1966, 11 stores were under construction (4 Safeway-built, 7 owner-built). Being designed are a new distribution center, a frozen foods plant, an ice cream plant, and additions to several existing plants and warehouses.

Our Employees

As referred to in the message to shareholders (page 1), our success depends on people—those who work for Safeway and in turn impress those who patronize our stores. The impression our people in the stores make upon customers, the image they reflect, is not left entirely to chance or personal whims. Traits of courtesy and friendliness are as much a part of Safeway's training courses as check stand operations, stocking shelves, or trimming meats. It becomes a "way of life" in Safeway. Even in off-the-job activities, community projects particularly, Safeway employees excel in exemplifying good citizenship. We are fortunate, and proud, that in Safeway we have thousands of such civic-minded people participating in local projects. Our Company takes pride in upholding its responsibilities as a good citizen in every community where we operate. We consider this not so much a duty as a privilege. It is this combined corporate and individual spirit that unquestionably has contributed to Safeway's success throughout the 37 years of our history in Canada.

AUDITOR'S REPORT

Peat, Marwick, Mitchell & Co.

TO THE SHAREHOLDERS:

We have examined the consolidated balance sheet of Canada Safeway Limited and subsidiaries as of January 1, 1966 and the statement of consolidated income and retained earnings for the 52 weeks ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and statement of consolidated income and retained earnings present fairly the financial position of the company and subsidiaries at January 1, 1966 and the results of their operations for the 52 weeks ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
March 4, 1966.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

CONSOLIDATED BALANCE SHEET

As of January 1, 1966 (With Comparative Figures as of January 2, 1965)

Assets

	January 1, 1966	January 2, 1965
Current assets:		
Cash	$ 16,877,484	$ 14,667,988
Accounts receivable	3,601,485	3,704,035
Merchandise inventories at lower of cost or market	34,957,720	32,795,899
Prepaid expenses	1,142,448	1,093,885
Properties for development and sale within one year	1,462,937	304,924
Total current assets	58,042,074	52,566,731
Notes receivable, secured	285,805	194,190

Fixed assets, at cost:		
Store, warehouse, plant, automotive and other equipment	$ 43,094,106	$ 39,953,265
Buildings and leasehold improvements	10,273,965	9,109,656
	53,368,071	49,062,921
Less accumulated depreciation	23,697,545	20,955,047
	29,670,526	28,107,874
Land	5,907,479	3,546,159
	35,578,005	31,654,033
	$ 93,905,884	$ 84,414,954

LIABILITIES AND SHAREHOLDERS' EQUITY

	January 1, 1966	January 2, 1965
Current liabilities:		
Accounts payable and accrued expenses	$ 13,485,829	$ 12,710,156
Income taxes payable	4,320,370	4,856,762
Debenture payment due within one year	—	200,000
Total current liabilities	17,806,199	17,766,918
Debentures payable, long-term	1,160,000	1,379,000
Deferred income taxes	1,645,499	1,558,630
Shareholders' equity:		
Capital stock:		
Cumulative redeemable preferred stock, par value $100 per share. Authorized 124,414 shares; outstanding as 4.40% series. (January 1, 1966, 68,552 shares; January 2, 1965, 71,396 shares)	6,855,200	7,139,600
Common stock, par value $10 per share. Authorized and outstanding 280,000 shares	2,800,000	2,800,000
Capital surplus	571,778	294,694
Retained earnings	63,067,208	53,476,112
	73,294,186	63,710,406
	$ 93,905,884	$ 84,414,954

NOTES TO FINANCIAL STATEMENTS

1. FIXED ASSETS: The store, warehouse, plant, automotive, and other equipment of Wingate Equipment Lessors Limited, a subsidiary, which cost $24,613,418, are leased to Canada Safeway Limited and a subsidiary. As security for payment of its debentures, Wingate has assigned to a Trustee its lease with Canada Safeway Limited and all rentals thereunder. The leased equipment is subject to a floating charge in event of default.

2. DEBENTURES PAYABLE: The debentures are payable by Wingate Equipment Lessors Limited, and consist of: $1,160,000 Series B, $4\frac{1}{2}$%, having a sinking fund requirement of $360,000 annually through 1969, maturing in 1970 (Debentures of $640,000, which have been acquired to meet the 1966, and part of the 1967 sinking fund requirements, have been applied in reduction of the amount shown as debentures payable).

3. CAPITAL STOCK: Under the terms of issue of the preferred stock, a fund of $300,000 (expenditures from which are to be replenished by July 1, annually) has been set aside for the purchase of stock, if available at par value or less, for cancellation.

During 1965, the company acquired through the purchase fund, 2,844 shares of 4.40% preferred stock which were cancelled. The preferred stock is subject to redemption on call at a premium which is now $2.00 per share and which reduces ultimately to 50 cents per share. Under the terms of the preferred stock issue, declarations or payments of dividends on the common stock may be restricted if they would reduce the consolidated retained earnings to an amount less than 25% of the preferred stock then outstanding.

4. Capital Surplus: A transfer was made from retained earnings to capital surplus of an amount equal to the cost of the 4.40% preferred stock purchased in 1965, $277,084.

5. Employee Retirement Plan: Payments by the company and a subsidiary into the Employee Retirement Plan Trust Fund for the year amounted to $325,806.

6. Operating Profit: Depreciation and amortization is included in the cost of sales and operating and administrative expenses as follows: 1965, $4,554,374; 1964, $4,117,863.

Remuneration of Directors, as salaried employees, amounted to $199,276 in 1965; $191,164 in 1964.

7. Contingent Liabilities and Commitments: The liability upon completion of contracts for construction of buildings and purchase of land amounted to approximately $1,530,395, at January 1, 1966.

Statement of Consolidated Income and Retained Earnings

For the 52 Weeks Ended January 1, 1966
(With Comparative Figures for the 53 Weeks Ended January 2, 1965)

	1965	1964
Sales:		
To the public	$400,235,283	$375,052,729
To parent company	630,704	1,164,473
	400,865,987	376,217,202
Cost of sales	325,171,845	306,354,209
Gross profit	75,694,142	69,862,993
Operating and administrative expenses	55,577,224	51,472,172
Operating profit	20,116,918	18,390,821
Interest and sundry income	730,145	564,653
	20,847,063	18,955,474
Other charges:		
Interest on debentures	57,408	80,152
Other interest	8,592	546
Loss on disposal of fixed assets (net)	141,570	32,293
Amortization of debenture issue expense	—	9,227
	207,570	122,218
Income before taxes on income	20,639,493	18,833,256
Provision for taxes on income	10,365,000	9,510,000
Net income	10,274,493	9,323,256
Retained earnings at beginning of period	53,476,112	44,866,586
	63,750,605	54,189,842
Add gain on acquisition of 4.40% preferred stock	7,316	7,106
	63,757,921	54,196,948
Deduct:		
Cash dividends:		
Preferred stock	301,629	314,142
Common stock	112,000	112,000
Transfer to capital surplus of an amount equal to the cost of 4.40% preferred stock purchased	277,084	294,694
	690,713	720,836
Retained earnings at end of period	$ 63,067,208	$ 53,476,112

The leases in effect as to all companies for stores, warehouses, and other properties number 276. Of these, 214 contain options to cancel. Should the company exercise these options, it could be required to purchase 178 properties. The minimum rental on leases in effect at year-end, for the years or periods as noted hereunder, is as follows:

1966	$6,803,000	1971–1975	$33,382,429
1967	$6,790,000	1976–1980	$31,566,000
1968	$6,776,012	1981–1985	$18,194,000
1969	$6,750,000	After 1985	$ 1,598,000
1970	$6,738,000		

8. Deferred Income Taxes: As in previous years, the companies will be allowed in 1965, depreciation for tax purposes in excess of that recorded in the accounts. Accordingly, income taxes otherwise payable for the year have been reduced by $86,869. The cumulative amount by which taxes otherwise payable have been reduced is $1,645,499, and this amount is applicable to future years when the depreciation for tax purposes may be less than the amounts recorded on the books of the companies.

Approved on Behalf of the Board of Directors:

WALTER P. KRAFT,
Director

W. D. GRIFFITH,
Director

EXHIBIT "B"

DEPARTMENT OF JUSTICE
DIRECTOR OF INVESTIGATION AND RESEARCH

Combines Investigation Act

Ottawa 4

File B029-09-C3

Room 746, Justice Building.
April 14, 1964.

D.C. McGavin, Esq., Q.C.,
Messrs. Aikins, MacAulay, Moffatt,
Dickson, Hinch & McGavin,
Barristers and Solicitors,
941 Somerset Building,
294 Portage Avenue,
Winnipeg 1, Manitoba.

In the Matter of the Combines Investigation Act

and

In the Matter of an Inquiry Relating to the Production, Purchase, Distribution and Supply of Milk, Ice Cream and Related Products in British Columbia

Dear Mr. Gavin:

After carefully considering the evidence in this matter I have concluded that it does not indicate a breach of the Combines Investigation Act and have discontinued the inquiry. The Restrictive Trade Practices Commission has concurred in the discontinuance and the discontinuance has been reported to the Minister of Justice as required by the Act.

Yours very truly,

D. H. W. HENRY,
Director.

EXHIBIT "D"

CANADA SAFEWAY LIMITED

PRICE AND MARKUP COMPARISONS
OCTOBER 14, 1966—OCTOBER 14, 1965
Vancouver, British Columbia.

	Supplier Brand			Change from Year Ago			Safeway Brand				Saving Available	
Product	Brand Name	10/14/66 Regular Retail Price	Markup	Regular Retail Price	In Markup % Pts.	Recent Ad Special Price	Brand Name	10/14/66 Regular Retail Perie	Change From Year Ago	Recent Ad Special Price	Safeway vs. Supplier Brand Reg. Prices 10/14/66	Safeway Brand Ad Price Reduction
Bread	Sunbeam 15 oz.	24¢	15.6%	+1¢	−0.7%		Ovenjoy, 16 oz.	14.3¢	−2.2¢		9.7¢ + 1 ounce	
3.8% Homo Milk 1 qt.							Lucerne	26¢	+1¢		*	
3.25% Homo Milk 3 qt.							Blossom Time	67¢	+2¢		*	
Canned Milk 15 oz.	Alpha	16.5¢	7.5%	−1¢	−8.5%	15.8¢	Lucerne	16.5	−1¢	14.3¢	0	2.2¢
Powdered Skim Milk 3 lb.	Pacific	$1.25	14.5%	0	−4.0%		Lucerne	$1.19	0	$.99	$.06	$.20
Egg, Grade A Large, 1 doz.							Gem	61¢	−1¢	57¢	*	4¢
Mild Cheddar Cheese 1 lb.	Cracker Barrel	83¢	24%	+6¢	+1.5%		"Safeway"	73¢	0	69¢	10¢	4¢
Processed Cheese 1 lb. loaf	Velveeta	83¢	23%	+4¢	+1%							
Butter 1 lb.	Alpha	65¢	1.5%	+2¢	−8.5%							
Tea Bags	Salada O.P. 120's	$1.69	19.5%	0	0		Canterbury 125's	$1.44	0	$1.29	$ .25 (+5 bags)	$ .15
							Casino 100's	$ .67	−$.08	$ .65		$ .02
Bag Coffee 1 lb.	Nabob	$ .89	6.5%	0	0		"Safeway"	$ .76	0	$ .69	$ .13	$ .07
Sugar 10 lb.	B.C.	$ .81	9%	−8¢	−5%	$ .75						
Family Flour 25 lb.	Robin Hood	$2.09	7%	−16¢	−9%		Harvest Blossom	$1.89	+$.04	$1.79	$ .20	$ .10
Macaroni 2 lb.	Catelli	$ .45	22.5%	+1¢	+1.5%							
Long Grain Rice 2 lb.	Delta	$ .49	23%	+2¢	−6%		Town House	$ .47	N.S.	$ .39	$ .02	$ .08
Dried Prunes 1 lb.	Sunsweet lg.	$ .42	23%	0	0		Town House Ex. Lg.	$ .39	+2¢		$ .03 + size	
Raisins	Sunmaid 15 oz.	$ .37	28%	0	0		Town House 16 oz.	$ .35	0		$ .02 + 1 oz.	

CANADA SAFEWAY LIMITED

PRICE AND MARKUP COMPARISONS
OCTOBER 14, 1966—OCTOBER 14, 1965
Vancouver, British Columbia.

		Supplier Brand					Safeway Brand				Saving Available	
				Change from Year Ago								
Product	Brand Name	10/14/66 Regular Retail Price	Markup	Regular Retail Price	In Markup % Pts.	Recent Ad Special Price	Brand Name	10/14/66 Regular Retail Price	Change From Year Ago	Recent Ad Special Price	Safeway vs. Supplier Brand Reg. Prices 10/14/66	Safeway Brand Ad Price Reduction
Cake Mix 19 oz..............	Duncan Hines	$ .51	23.5%	0	0	44.5¢	Mrs. Wright's........	$ .43	0	33.3¢	$ .08	9.7¢
Salad Dressing 32 oz.........	Miracle Whip	$ .67	17.5%	−2¢	−25%		Piedmont...........	$ .61	−4¢	49¢	$ .06	$ .12
Pancake Syrup 32 oz.........	Nalley's Imbrjk.........	$ .49	24.5%	0	−6%		Empress............	$ .45	+2¢	39¢	$ .04	$ .06
White Vinegar 80 oz.........	Canada	$ .72	21.5%	+3¢	−1.5%		Piedmont...........	$ .69	+4¢	65¢	$ .03	$ .04
Canned Soft Drinks 10 oz. .	Canada Dry	11.5¢	20.5%	+1¢	+2.5%		Cragmont...........	9.5¢	+1.2¢		$ .02	
Corn Flakes 12 oz...........	Kelloggs	$ .33	20%	0	−1%	27.7¢						
Rolled Oats 5 lb..............	Quaker	$ .79	19%	+6¢	−1.5%	59¢						
Marmalade 24 oz.............	Good Morning	$ .67	23%	0	0		Empress Orange Sev. 48 oz...........	85¢	−4¢	69¢	24.5¢ per 24 oz.	16¢ per 48 oz.
Strawberry Jam............	Kraft 9 oz.	$ .45	23%	0	0		Empress 24 oz......	$ .75	−4¢		16.9¢ per 9 oz. equiv.	
Raspberry Jam 48 oz........							Empress............	$1.29	−4¢	$ .99		$ .30
Margarine 1 lb..............	Mom's	29.5¢	17%	+1¢	−5.5%		Dalewood..........	24.5¢	+5¢	22.2¢	5.0¢	2.3¢
Margarine 2 lb..............	Parkay	$ .73	19%	0	+4%	59¢						
Soda Biscuits 1 lb...........	Christie	$ .39	20%	0	−2%		Busy Baker.........	$ .37	0		$ .02	
Lard 1 lb...................	Swift	$ .29	16%	0	−3%	22.5¢						
Baby Food $4\frac{3}{4}$ oz............	Heinz	11.2¢	7.5%	−0.3¢	−8.5%							
Canned Peaches Halves Fcy. 15 oz......................	Libby	24.5¢	21%	0	−3.5%		Town House........	26.5¢	+0.5¢	22.2¢	(2.0)¢	2.3¢
Choice 15 oz................							Taste Tells.........	24.5¢	−0.5¢	22.2¢	0	2.3¢
Canned Sliced Pineapple 14 oz.......................	Libby	$ .31	20%	+2¢	−2%		Lalani.............	29.5¢	N.S.	26.5¢	1.5¢	3.0¢

Canned Choice Tomatoes 28 oz......................	Royal City	$ .37	22%	0	−1.5%		Town House........	$ .35	+2¢	33.3¢	$ .02	1.7¢
Canned Peas Fcy-Asst 15 oz.	Del Monte	21.5¢	16%	+1¢	−1%		Town House........	19.5¢	0	16.7¢	$ .02	2.8¢
							Town Tells.........	17.5¢	+1¢	14.3¢	$ .04	3.2¢
Canned Cream Corn 15 oz...	Royal City	21.5¢	20.5%	+3¢	0		Town House........	19.5¢	+3¢	16.7¢	$ .02	2.8¢
Canned Tomato Juice 48 oz..	Libby	$ .39	23.5%	0	+5%		Town House........	$ .37	0	33.3¢	$ .02	3.7¢
Catsup 11 oz................	Aylmer	$ .25	26%	+1¢	−3%		Taste Tells.........	23.5¢	−0.5¢		1.5¢	
Tomato Soup 10 oz..........	Campbell	14.5¢	17%	0	+3%							
Various Soups 10 oz.........	Campbell	18.5¢	8%	0	−5%							
Baked Beans w/Pork 15 oz..	Aylmer	19.5¢	26.5%	0	0		Taste Tells.........	15.5¢	+1¢	12.5¢	$ .04	$ .03
Canned Pink Salmon 7¾ oz..	Cloverleaf	$ .39	19.5%	0	0		Sea Trader.........	$ .38	+2¢	34.5¢	$ .01	3.5¢
Canned Solid Wht. Tuna 7 oz......................	Cloverleaf	$ .49	20.5%	+2¢	−1.5%	$ .45	Sea Trader.........	$ .43	+6¢		$ .06	
Frozen Strawberries 15 oz...	Delnor	$ .49	28.5%	−2¢	+1%		Bel-Air............	$ .43	−6¢	33.3¢	$ .06	9.7¢
Frozen Peas 12 oz..........	Delnor	21.5¢	24.5%	0	−4%		Bel-Air............	20.5¢	+1¢	17.2¢	$ .01	3.3¢
Frozen Meat Pies 8 oz.......							Manor House.......	$ .29	0	22.2¢		6.8¢
Bleach 32 oz................	Perfex	$ .31	20%	0	0		White Magic........	$ .25	0		$ .06	
Detergent Giant............	Tide	$1.03	16.5%	0	0	$ .95	White Magic........	$ .79	N.S.	$ .69	$ .24	$ .10
Liquid Detergent 32 oz......	Ivory	$1.27	16.5%	0	0		Brocade...........	$ .87	0		$ .40	
Toilet Soap Reg. Bar.......	Lux	15.7¢	15.5%	0	−2.5%		Brocade...........	7.9¢	0		7.8¢	
Toilet Tissue 4 Rolls........	Scott	$ .57	30.5%	+4¢	+8.5%	44.5¢	Truly Fine.........	$ .53	+8¢	39.5¢	$ .04	13.5¢

N.S.:—Not stocked a year ago.
*Safeway does not stock supplier brands in all stores. Extent of saving would depend upon retail prices of supplier brands in competitor's stores.

CANADA SAFEWAY LIMITED

Item Price & Departmental Gross Profit Information
(Vancouver, B.C.)

Fresh Fruits and Vegetables		Regular Prices 10/14/66	Recent 1966 Ad Prices
		¢	¢
Potatoes, Local #1 Netted Gem 10 lb. shopping bag		63	49
Bananas, per lb.		19.5	12.5
MacIntosh Apples, Fancy or Better, per lb.		16.3	12.5
Oranges, California Sunkist, per lb.		22.5	14.3
Cabbage, Local, per lb.		7	6

Produce Department Realized Gross Profit Rate up from a year ago only 0.49% point on sales
(*See discussion below*)

Meats, Poultry, Fish			
Choice Beef:			
Round Steak	per lb.	$ .98	.79
Rump Roast	" "	.93	.79
Sirloin Steak	" "	1.23	—
Sirloin Tip Roast	" "	1.09	.98
Round Bone Roast	" "	.55	.45
Chuck Roast	" "	.59	.45
Rib Roast	" "	.89	.79
Thick Short Ribs	" "	.55	—
Plate Beef	" "	.39	—
Brisket, Bone In	" "	.47	—
Centre Shank	" "	.59	—
Ground Beef	" "	.59	.53
Frying Chickens, Whole	" "	.52	.43
Sliced Bacon #1	" "	1.19	.99; 1.09
Breakfast Sausage	" "	.77	.67
Weiners, Bulk	" "	.43	.39

Meat Department Realized Gross Profit Rate up from a year ago only 0.71% on sales
(*See discussion below*)

Year-to-Date Departmental Gross Profits

Meaningful retailing *markups* on most individual produce and meat *items* are impossible to compute—on produce items because of variable sizing, trim, spoilage, and shrinkage that necessarily occurs in preparation of individual items for retail sale from the bulk shipping units purchased; and on fresh meats such as beef items because numerous alternative consumer cuts (along with salvage bone and fat) are derived from each of the primal cuts, quarters, or carcasses purchased at wholesale. That is, "cost" of the various items as priced and offered for sale at retail cannot be determined (except by highly arbitrary yield allowances or proration).

Moreover, supplies and therefore bulk wholesale costs and item retail prices of perishable fresh fruits and vegetables, for example, vary substantially and frequently, with the season, weather, and other factors affecting availability—and "distress" price reductions are often made at retail to prevent spoilage—so that any price-cost "markup" calculation on a given date for a given item cannot be considered a valid representation of the selling margin for that product.

In addition, meats in particular are frequently specialed at substantial retail price reductions at which time movement of the specialed items increases markedly. Therefore, even for those meat department items purchased at wholesale in more or less the same form as retailed (chickens, bacon, sausage, and wieners in the above list), "markups" calculated at regular retail prices are

not representative of the cost-price margins at which a substantial portion or bulk of the sales occur. Examples: At the 10/14/66 regular chicken price above, the "markup" was 22 per cent, up 2 1/2 percentage points from a year earlier; but at ad special prices in a few preceding months, markups ranged from $3\frac{1}{2}$ per cent to 15 per cent. At the 10/14/66 regular price for No. 1 bacon above, the "markup" was 24 1/2 per cent, up 2 percentage points from a year earlier; but at recent ad special prices, markups were at 21 per cent, 14 per cent and 11 per cent.

With such variations in perishable product availability, and in costs, retail item prices, specials, "markups", and movement, the results of a retailer's flexible pricing and merchandising of produce and meats is better shown in departmental gross profit rates over a period of time, than in item "markups" on any given date or dates. This year to date this Safeway Division's gross profit rate on sales for the Produce Department was 0.49 percentage points higher than a year earlier, and for the Meat Department 0.71 percentage points higher than a year earlier. (Were these increases "removed" from present retail prices, it would reduce the price of a 10¢ per pound produce item by only 1/20 of 1¢ per pound, and a 75¢ per pound meat item by about 1/2 of 1¢ per pound). Incidentally, advances in retail store employee cost ratios to sales more than offset the Division's gross profit rate increase for the Produce Department, and partially offset it for the Meat Department.

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 11

TUESDAY, OCTOBER 25, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. S. Ron Basford, M.P.

WITNESSES:

M. Loeb Limited: Mr. Bertram Loeb, President; Mr. Curtis Kerns, Director of Perishables; Mr. Norman Lesh, Director of Advertising; Mr. Thomas Greig, Director of Finance; Mr. Jack Rabinovitch, Vice-President, Retail Operations; Mr. G. Fischer, Director of Meat Operations.

Western Grocers Limited: Mr. E. S. Cooper, President.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25014—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

FOR THE SENATE

Hon. David A. Croll, Joint Chairman

the Honourable Senators

Carter,
Croll,
Deschatelets,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

FOR THE HOUSE OF COMMONS

Mr. S. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Duquet,
Gray,
Horner (*Acadia*),
Irvine,
Leblanc (*Laurier*),
Lefebvre,
Mandziuk,
McCutcheon,
McLelland,
Olson,
Otto,
Ryan,
Saltsman,
Scott (*Danforth*),
Smith,
Whelan—(24).

36 members
Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

First Report

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

Second Report

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the

25014—1½

problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, October 25, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), McDonald (*Moosomin*), McGrand and O'Leary (*Antigonish-Guysborough*).—5.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Horner (*Acadia*), Irvine, Mandziuk, McLelland, Scott (*Danforth*), Smith and Whelan.—9.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

The following were heard:

M. Loeb Limited:
Mr. Bertram Loeb, President.
Mr. Curtis Kerns, Director of Perishables.
Mr. Norman Lesh, Director of Advertising.
Mr. Thomas Greig, Director of Finance.
Mr. Jack Rabinovitch, Vice-President, Retail Operations.
Mr. G. Fischer, Director of Meat Operations.

At 1.00 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), McDonald (*Moosomin*) and McGrand.—4.

For the House of Commons: Messrs. Basford (*Joint Chairman*), Leblanc (*Laurier*), Lefebvre, McLelland, Saltsman and Whelan.—6.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel, Mr. Jacques L'Heureux, C.A., Accountant.

Mr. E. S. Cooper, President, *Western Grocers Limited,* was heard.

At 5.45 p.m. the Committee adjourned until Thursday next, October 27, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committee Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, October 25, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: I see a quorum. We have with us today Mr. Bertram Loeb, President of M. Loeb Limited, and some of his executives are with him. Mr. Loeb is presenting a brief now.

Mr. Bertram Loeb, President, M. Loeb Limited: Thank you, Mr. Chairman. Good morning, ladies and gentlemen. With me this morning are six of our executives, and they will be available to answer any questions that may arise. They are: Norman Loeb, Chairman of our Board; Thomas Greig, Director of Finance; Norman Lesh, Director of Merchandising; Curtis Kerns, Director of Perishables; Jack Rabinovitch, Director of Retail Operations; and Jerry Fischer, Director of Meat Operations.

With your kind permission, I should like at the outset to present a brief film covering a very important facet of our business, and that is the relationship between the franchised retailers that our company services and supplies, such retailers being engaged in the marketing and merchandising of food. The film has been prepared by the National American Wholesale Grocers Association, of which most leading wholesale food distributors are members. It will give you some indication of the scope of our operations and the opportunities available in the field of retail distribution for independent merchants.

Following the film presentation, I shall proceed with my brief.

(*Film presentation*)

Mr. B. LOEB: I am Bertram Loeb, President of M. Loeb Limited, Ottawa. I am happy to represent this company and, in a sense, also the 450 franchised retailers serviced by our distribution centres, as well as the many thousands of independent small retailers who daily enjoy the goods and services our company provides. It is my fervent hope that the information contained in this brief and the discussion which may ensue will be helpful to the committee in their search and understanding of the many facets and complexities of the food industry.

M. Loeb Limited is an Ottawa-based company and is presently Canada's largest food distributing organization, with anticipated sales in 1966 of about $245 million. It maintains eight distribution centres in Ontario and Quebec, from which it services and supplies 450 franchised food retailers and other large independent markets, as well as institutions of various types. A distribution centre is a large volume, one floor, automated, computerized warehouse, operating on a low-cost basis and supplying a large portion of the retailers' require-

ments, both perishables and non-perishables. We also operate 33 cash and carry warehouses in the major centres of Ontario and Quebec, supplying licensed retailers, corner stores, and small entrepreneurs, with their requirements on a cash and carry, low mark-up basis. Our company does not engage in manufacturing, other than a small creamery producing butter, cheese and powdered milk, and it is not our policy to own or operate retail food stores.

Historically, Canada has been and continues to be a nation of small entrepreneurs, independent businessmen who are proud of their self-reliance and their ability to accomplish miracles against overwhelming odds. They are marked by their competitive spirit and their single-mindedness of purpose. There are still, in spite of the increasing bigness of the major manufacturing and merchandising corporations, a large number of people who not only believe in and talk about free enterprise, but practise it by going into business for themselves.

The continuing purpose of the independent franchised or unaffiliated retailer has been to give the consumer "more and more for less and less". The distributing operations of this particular industry are divided into four stages—the manufacturer, the wholesaler, the retailer and the consumer. Of these, the first three exist to serve the fourth. This is a responsibility that requires the closest co-operation of all three to arrive at a combination of quality, convenience, breadth of choice and competitive prices. No one link in this chain of supply is more important than another, and none can function alone.

The dramatic transformation of the corner grocery store to the one-stop, self-service supermarket is a widely healded Canadian epic. A virtually parallel develooment has taken place, however, "behind the scenes," with little fanfare or public impact. This is the emergence of the "old line" wholesale grocer, who served these corner stores, to his now role as supplier and merchandising partner of these high-powered, high volume, independent franchised supermarkets.

This is a story that deserves telling not merely to correct misconceptions, but to convey the full significance of this revolution in food distribution that has so profoundly affected the habits, the health and the lives of our entire population.

In the total marketing process, there is a link between manufacturing and retailing which traditionally has been called wholesaling. Its function is as vital to the success of an orderly, economical marketing system as manufacturing or retailing, and, in its own sphere, it is quite as highly specialized and complex. By whomever performed, it is a function that must be performed.

The corporate chain, of course, undertakes this intermediate operation of warehousing, break-up and distribution, for itself. The wholesaler, such as our own company, must redistribute the 6,000 to 8,000 items received from his hundreds of manufacturers to his outlets, while the chain store distributor re-distributes the same number of items to his limited number of larger stores. Therefore, the wholesale distributor must be more efficient than the chain store in order to remain competitive. From time to time some manufacturers, because of the character of their products or for other reasons, have attempted to perform this function for themselves, but virtually all food processors have discontinued this practice, finding it too onerous and costly.

For the most part, the wholesaling function has usually been performed by the wholesaler. The wholesaler has always been something of an enigma, a man of mystery. He has never been very well understood by anyone, except the two people who need him most, the manufacturer and the retailer. Having no dealings with the consuming public, the wholesaler had no concern with them, and an image, entirely distorted, was created about this so-called middleman.

He was, in times gone by, a high cost operator, a speculator-buyer and a storage-purveyor. He bought as cheaply as he could, sold for as much as he could, and collected his money as fast as he could. What happened to the merchandise in the retail stores was of no concern to him.

But, in the last decade, a new phenomenon in distribution arose, known as the voluntary or franchised group distributor, and this has added a new dimension to the distribution function. Such food distributors in Canada are few in number, but their growth and leadership have had tremendous impact on the entire distribution industry.

The modern food distributor is no ordinary wholesaler, no buyer and seller of commodities. He is an imaginative, resourceful merchandiser, aggressive, skillful and efficient. He has assumed the leadership, direction and major responsibilities for the complete retailing effort of food stores franchised by him. It means the location of the store; the layout of the parking area; the design, engineering and decor of the premises; the equipment and personnel in the store; the advertising and promotion; the operating standards and policies; the financing and return on investment; the community and public relations; and then too, the merchandise it buys from him. In effect, the wholesaler provides all the goods and services to his franchised retail members that a corporate chain headquarters would supply to its wholly-owned retail outlets.

The success of the voluntary group sponsor or the wholesaler distribution specialist did not come quickly or easily. Companies like our own had to contend with:

1. Superior money power of the corporate chains.

2. Superior know-how of the chains in retail merchandising, real estate, engineering, advertising, and accounting.

3. The strict control and command that chains could exercise over their store personnel.

4. Superior buying advantages of chains by sheer volume of sales.

5. Strong public image of chains as low priced stores contrasted with the unfavourable image of many independents and the early voluntary stores.

Today the picture has changed materially, and we at M. Loeb Limited enter the second century of Canada's nationhood with confidence and pride—confidence based on the fact that:

1. The industry knows that voluntaries can compete successfully with the chains, and the techniques of doing it are known and available to all.

2. A public awareness that the voluntary force is growing—also the awareness of suppliers, the advertising world and the financial fraternity.

3. The voluntaries have pulled ahead of many chains in many fields, and dominate markets in some highly competitive areas.

4. The voluntaries have become more efficient in many phases of distribution than the chains.

5. The voluntary retailer and his wholesaler partner have more flexibility, manoeuvrability and room for imagination than the chains.

6. A new generation of wholesaler has grown up in the voluntary tradition and in the atmoshpere of success rather than frustration. We at M. Loeb Limited together with our retailer affiliates are not competing with the food chains for survival, or even equality. We are competing for leadership.

7. A new generation of retailer has grown up in the voluntary system—a retailer who believes in it—in teamwork, trust and mutual growth.

8. The independent food retailer sponsored by the efficient food distributors can, through teamwork, efficiency and determination, sell food to the consumer as low as or lower than any other form of marketing or merchandising concept.

9. The modern distribution specialist can plan and carry out different programs for different groups—large group supermarkets, independent retailers, bantam stores or small corner stores, and provide a variety of services according to the needs and potentialities of the individual or group.

10. The strategic location of our warehouses throughout Ontario and Quebec enable the independent retailer franchised or unaffiliated to purchase his requirements as cheaply as or cheaper than the corporate chain. Since over 50 per cent of the retail food business in these areas is done by independents, one can quickly observe the important role of the wholesaler.

The success of this type of relationship between wholesaler and retailer can best be attested to by the growth of our company. In 1951 it had sales of $5½ million, with a profit margin of 8/10 of one per cent after taxes. During 1966 we expect wholesale sales of about $245 million with a net margin of around 9/10 of one per cent after taxes—a margin that has not changed during the last year. These and other operating figures are indicated in Appendix "A".

(See Exhibit "A" following this text.)

Our retail membership has grown from 34 affiliated stores in 1951 to 450 franchised dealers in 1966. IGA Stores have in effect played a vital role in our operating areas, having brought modern merchandising techniques and lower prices to virtually hundreds of communities and suburban areas where previously no modern food facilities existed. It has enabled hundreds of obscure individuals, men of moderate means, to own their own business and enjoy the blessings of our free enterprise system. Stores are owned by individuals and not by absentee corporations, and the miracle of the independents, backed up by their wholesaler strategists, is one of the great economic dramas of our time. Logically, one might say that the voluntary group concept of food distribution, as exemplified by the independently owned IGA Stores serviced by our company, is an answer to what a great American jurist called "the curse of bigness".

No one can deny that the prices of food have increased. This matter is always of concern to us, for we are constantly involved in controlling costs at distributor level so that our retailers may remain competitive with the corporate chains, provide outstanding values to the consumer, and at the same time enjoy a reasonable return for their effort and investment.

But one fact must be reiterated. We at M. Loeb Limited and at the IGA Supply depot have no control over the cost of food products at wholesale or retail. We supply our stores on what is known as a "cost plus" basis, that is, the cost of merchandise to us at warehouse level, plus a fee for services rendered the retailer. Such services would include warehousing, delivery, supervision, store engineering, merchandising, accounting and all and any other service required by the retailer. The charge for such services to the retailer has not been changed for the past fifteen years, despite the fact that our own operating costs have increased materially. We have been able to maintain our net profit after taxes by more efficient operations, greater use of computers, employing the most modern material handling equipment, and by large volume of sales. Our IGA retailers have been able to enjoy an ever-increasing share of the market and wide consumer acceptance by emulating the best that the corporate chains had to offer, by a strong program of fine private label or house brand merchandise, but above all by the personal application, dedication and service of the owner-operator.

Since in many cases the independents have the bulk of their personal wealth invested in their stores, they have a built-in incentive to increase their sales. With the wholesaler solidly behind him to guarantee loans and provide services, the group-oriented independent is proceeding confidently and swiftly, unemcumbered by boards and excutive committees and absentee ownership.

Understanding the community in which he operates, he is moving into new growth areas or inadequately serviced areas with supermarkets custom-tailored to the size and potential of the community. With our population so widespread in Canada and with an abundance of progressive rural areas where resident ownership and community identification are possible and desirable, the independent retailer has not only been able to find a place in the sun, but as well has been able to enjoy a return for his effort and investment.

What has happened, then, is that the know-how, buying power, financial strength and other advantages of the distributor specialist have been subtly balanced with the resourcefulness, vigour and unique financial incentive of the independent businessman—a combination that has left some of the less flexible chains far behind. For the affiliated independent food retailer in Canada, of which IGA is the largest, the growth picture has been bright. These stores have increased their share of the nation's food sales from 19 per cent in 1957, to 36 per cent in 1965 and represent by far the fastest growing segment in the food industry.

It is significant to note that while at wholesale level we have been able to absorb the increased costs for the reasons mentioned priviously, this has not been the case with our franchised retailers. Their advertising costs have almost doubled in the decade, and their labour, rent, interest rates, taxes and utilities have increased considerably. Yet their margin of net profit of about 2 per cent of sales after taxes has not changed materially in the past ten years.

There are two other groups worthy of mention. Since this committee is concerned with the price of food, it is important to mention the vital role of the wholesale distributor in supplying his goods and services to the broad classification of "institutions". This would include restaurants, hotels, hospitals, army camps, schools and others who provide Canadians with about 25 cent of their food consumption on a daily basis. Were it not for the efficient low cost of operations of today's distribution specialist such as M. Loeb Limited, it is entirely possible that the price of a meal in your favourite restaurant might well be higher.

Co-Chairman Senator Croll: This could not be!

Mr. Loeb: The second group is the small corner, "mom and pop" store, the variety store, delicatessen, dairy bar, fruit or confectionery outlet, who depend upon the modern wholesaler for his supply of merchandise. A large percentage of these retailers procure their goods from any of the thirty-three Loeb Cash and Carry warehouses at a nominal mark-up over cost, thus enabling them to keep their prices fairly competitive and enjoy the benefits of a reasonable profit. There is no question, then, that the public generally benefits from the services of the modern distributor.

Ours is a never ending struggle for improved efficiency, lower costs, increased productivity and the realization of a reasonable profit for our franchised retailers and our shareholders. Since we are not manufacturers or producers, we have no control over costs of foods. Nor is it our intention to pursue a policy of vertical integration or enter into the manufacturing of the goods we sell. We genuinely believe that the interest of the consumer can best be served and the lowest prices prevail when all segments of the food industry remain free agents, become highly skilled and efficient, and adhere to a strong program of specialization, whether in processing, in distribution or in retailing.

In respect of the services we provide, our company enjoys as high a degree of productivity and efficiency as any other pure wholesaler in North America and higher than most. According to the latest distribution figures of the National American Wholesale Grocers Association, the average selection rate for all types of food wholesalers is 143 cases per man hour. The average selection rate of our company for our eight warehouses averages 187 cases per man hour.

The true standard of productivity is tons per man hour and the current average for all warehouses in the above survey totals 1.34 tons per man hour, whereas the average tons per man hour in our company is 1.70. In 1952, for each person employed in our company, the sales averaged $90,000 per employee annually. In 1958, for each person employed in our company the sales averaged $160,000 per employee annually. In 1965, for each person employed in our company the sales averaged $200,000 per employee annually.

Of the number of new items introduced by manufacturers annually, the mortality rate is 95 per cent. Cost of introducing, storing, handling and efficiently selling out of this item is added to the cost of the product. Somewhere along the line the large variety of sizes and shapes of packages and cartons of the same products also adds to the cost of the product from the manufacturer to the distributor and ultimately to the consumer. We are constantly in the forefront of modern trends and developments of low cost distribution and are determined to continue to provide for the small businessman the means to enjoy the many opportunities in this great land.

I mentioned previously that our company engages in a strong and aggressive program of private label or house brand merchandising. We have been promoting private label for several years, for it provides our retailer affiliates with a wide range of top quality food products manufactured by leading processors at substantially lower prices than nationally advertised brands. These lower costs and prices to our retailers make it possible for the consumer to enjoy lower prices on many items.

In summary, then, I wish to submit that, in addition to embodying the finest elements of our free enterprise system and providing a bulwark against the elimination of competition, the distributor-retailer relationship has effectively prevented food prices from rising even higher. As consumer acceptance of the independents becomes more widespread in new operating areas, it can confidently be expected that prices will become stabilized and possibly decline.

I wish to assure this committee that we have never been more conscious of our responsibilities to the consuming public. We believe too that the wholesale food industry is unexcelled in its effectiveness and efficiency. We pledge together with our retailers, both affiliated and independent, to continue to seek new ways and better means to further improve our operations and increase our efficiencies, so that a higher standard of food, at lower costs, may be made available to all Canadians.

Co-Chairman Senator Croll: I will wait for a minute or two while the members of the committee look at Appendix A.

Mr. Scott: Mr. Chairman, after that rousing eulogy one is almost afraid to ask any questions. Mr. Loeb, I wonder if you would give us—and this is just exploratory on my part—a little more detail of the contractual relationship between the distributor and what you call in one place "an affiliate", and in another "a franchised dealer"?

Mr. B. Loeb: "An Affiliate" is just a synonym for "a franchised dealer". They are one and the same. We occasionally refer to them as affiliates because they are affiliated with our company. In other cases, we refer to them as franchised dealers, who are franchised by our company, but they are one and the same.

The contractual relationship consists of an agreement between the wholesaler and the retailer by which the wholesaler, or the distributor, agrees to provide certain services and goods to the retailer upon prearranged conditions, and by which we ask the retailer, to whom we grant a franchise to operate in a specific area, to perform certain functions in respect to the franchise agreement. We agree to provide the retailer with lowcost warehousing, merchandising, supervision, financial assistance and so on. We ask the retailer, in turn, to

concentrate his purchases with us, to follow an advertising and merchandising programme, to maintain store cleanliness, to follow our accounting procedures, and to follow a suggested pricing programme which is necessary to guarantee him a profit and a return on his investment. The agreement can be terminated by either party in 30 days' notice. This is the nature of the contractual relationship.

Mr. SCOTT: Do you limit the location of your stores, or your franchises, in some way?

Mr. B. LOEB: Yes. Generally, in the city, we try to grant a franchise within a specific marketing or trading area. This is determined by the number of people in a given area. In the smaller communities we grant only one franchise in a given community.

Mr. SCOTT: Can you help me with this: What would be the normal average investment that a voluntary owner would have tied up in his business?

Mr. B. LOEB: When you say "have tied up" do you mean by way of cash investment or contingent liability?

Mr. SCOTT: Let us start with the cash investment.

Mr. B. LOEB: It would depend primarily on the size of the store, and the number of people in the trading area.

Mr. SCOTT: Can you give me some sort of an example, say, here in Ottawa?

Mr. B. LOEB: Let us take Ottawa where a retailer would want to open a store to serve a suburban area of 10,000 people. Our research people would determine the trading area, the size of the store required, the nature of the competition, the growth potential, and so on. If we decide, say, a 10,000 square foot store is required we know that the investment in that store, in equipment and inventory, would be in the neighborhood of about $150,000.

Mr. SCOTT: That would be an average investment, would it?

Mr. B. LOEB: Yes.

Mr. SCOTT: You say that once the man has that invested you can then terminate the franchise agreement on 30 days' notice?

Mr. B. LOEB: I beg your pardon?

Mr. SCOTT: You told me, I think, at the beginning that the franchise agreement can be terminated by either party on 30 days' notice?

Mr. B. LOEB: Right.

Mr. SCOTT: Does that mean that you have a franchised dealer with $150,000 tied up, and you can terminate the agreement on 30 days' notice?

Mr. B. LOEB: No, not under these arrangements where a retailer invests a substantial sum of money. Our company is primarily involved on the prime lease, and we sublet to the retailer on a long-term lease, and during the period of that lease—that is, 20 or 25 years—the agreement is binding. It is only where there is no liability on the part of the retailer to us that the agreement is loosely arranged.

Mr. SCOTT: What worries me on a first analysis—and perhaps you can clear this up—is the danger of there being a real club. I am thinking of a situation in which an affiliate has a large investment, and then the parent distributor has the right to terminate the agreement.

Mr. B. LOEB: But the retailer, by the same token, has the right to terminate it if he finds that the relationship is unsatisfactory to him. It does not in any way represent a club, because in our 15 years of operation no such relationship has ever been terminated by either party, but we give that provision to the retailer should he not find that the relationship is working out satisfactorily.

Mr. SCOTT: Is he free to buy from any other distributor that he wants to?

Mr. B. LOEB: He is free, but generally they do not.

Mr. SCOTT: Are there any restrictions on his buying?

Mr. B. LOEB: No.

Mr. SCOTT: You mentioned in your statement something about loans. Can you tell us a little bit about that? Do you make loans to these affiliates?

Mr. B. LOEB: Yes, we make loans to them in various ways. There are very few retailers walking about this city or this country with $150,000 in cash in their pockets, so we generally demand they come up with about 25 per cent of the cash required to own or operate a supermarket. We will finance the balance either through bank loans, through our own financial working capital, or through loans by such banking organizations as RoyNat or other finance companies, generally at the lowest rate of interest possible.

Mr. SCOTT: Are such loans repayable over a long period of time?

Mr. B. LOEB: Generally, from five to seven years, and on a basis consistent with the retailer's ability to repay them.

Mr. SCOTT: I will ask some other questions later, but I will now give somebody else a chance.

Mr. WHELAN: Mr. Chairman, Mr. Scott, has asked some questions I wanted to ask about financing, but I do have other questions as well.

Mr. Loeb, do you have an interest in any finance company which provides loans to the store owners?

Mr. B. LOEB: No, sir, none whatsoever.

Mr. WHELAN: None whatsoever?

Mr. B. LOEB: No.

Mr. WHELAN: You import a lot of food. From what countries do you import food for your outlets?

Mr. B. LOEB: Our largest imports are from the United States, and they consist of perishables—that is citrus fruits and items that are not available in Canada. We import very little from Europe or other countries.

Mr. WHELAN: Do you import anything from Africa or any of the developing nations—the Caribbean for example?

Mr. B. LOEB: No, sir.

Mr WHELAN: Or South America?

Mr. B. LOEB: No, sir—I think we may import some South African oranges. We import some oranges from Israel, and we import some beef from Argentina in small cans, but these are very negligible operations in relation to the products we sell.

Mr. WHELAN: What would be the mark-up on the imported foods as compared with that on home-produced foods?

Mr. Curtis Kerns, Director of Perishables, M. Loeb Limited: The mark-up on imported foods would be comparable to the mark-up taken on Canadian produced fresh fruits and vegetables. That is the only area—

Mr. WHALEN: What is the mark-up on Canadian fresh produce, fruits and vegetables?

Mr. KERNS: Could I qualify that—wholesale or retail?

Mr. WHALEN: You buy direct from the producers' organisations. What is the mark-up you have to have before you give it to your store owners or distributors?

Mr. KERNS: Usually we work on a mark-up or gross profit on sales in the range of 10 to 11 per cent; as high as 13 per cent—in that range. I have to have specific figures from period to period to show you at wholesale. At retail our departments probably run an average 25 per cent gross profit or 24 per cent, 25 per cent, 26 per cent, depending upon the retailer and his ability to maintain costs in the retail operation.

Mr. WHALEN: On a 37 per cent mark-up?

Mr. KERNS: You are pyramiding mark-up on top of mark-up, and that is not correct. It is about 34 to 35 per cent. That is before shrinkage as well; we have shrinkage on retail to be calculated and at wholesale, which is involved.

Mr. WHALEN: Why is it that production of fresh fruits and vegetables in the off-season are in many, many cases not as high in quality in Canada, and to be specific not as high in Windsor in quality as just across the river in Detroit?

Mr. KERNS: I will have to say, without being too hard on the Canadian grower that in many instances the co-operatives or farmers organizations have not reached a state of perfection in growing and packing at the production level as has been accepted in the United States. Normally we would get a better pack from the States.

Mr. WHALEN: What I mean is that when we are not producing in Canada and are importing all our produce, say from the United States, the stores in Detroit will have a much higher quality of produce than in the City of Windsor. I have personally investigated this on my own, and you have to be a blind man on a galloping horse not to notice it.

Mr. KERNS: The stores in Windsor on a general store basis buy mostly out of Toronto. Most of the stores served in Windsor by our company are served the very finest. I think we have the highest quality standards of any in Canada.

Mr. B. LOEB: I would add to that that possibly one of the reasons produce would look better in Detroit stores than in Windsor is due to the fact that Detroit has probably ten times the market Windsor has, and probably has five times the population, relatively speaking. In larger markets turnover is more rapid and perishability declines. If the situation in Windsor is such that merchandise has to be drawn from London or Toronto, it means it almost passes from California through Windsor to Toronto and goes the rounds back to Windsor, and every time perishables are handled they deteriorate.

Mr. WHALEN: A lot of this produce I realize would not—I wouldn't call it joy-riding, but deterioration is in the form of transportation, by reason of the fact that distribution goes through Windsor, off to London, Toronto and so on, and is riding across the country for too long. Would this not add to the cost of produce, all this transportation?

Mr. B. LOEB: I would venture to say that because Toronto is the hub of the produce-importing area, and that it has to be handled in Toronto, sub-handled in London, and again Windsor, every time somebody touches it it deteriorates in quality and something must be paid for that handling.

Mr. WHALEN: I would say it is different with livestock feed and the human food industry by comparison, because produce comes through from the States, is dropped off at the point of consumption, and in Canada it goes on to eastern parts. The greatest bulk of the produce goes through the port of Windsor and what you call the central distribution, Toronto, and is transported back, which seems highly uneconomic to an ordinary layman, so far as I am concerned. But I know this happens in a great many instances with the produce in Kent and Essex counties, it is transported here, there and back again. It may be good for the trucking industry, but I don't know for whom else. Is there no way your organization could simplify this?

Mr. KERNS: It is quite difficult to have an orderly distribution to a great number of stores in a wide geographical area, such as Chatham, Kingsville and all through the peninsula. It is difficult to distribute direct out of Detroit, accomplishing all the many situations that are involved at the border in the form of duties to be paid, border brokers, and so on; it is virtually impossible without warehousing say in Windsor and distributing from there to reasonably service the stores on a sound and economical basis. Windsor itself is not practical because of the small volume contained in that area, and it cannot pay the cost or begin to absorb the cost of maintaining refrigeration facilities for distribution.

Mr. WHALEN: I should think that the port of Windsor would be an ideal area for distribution to Sarnia and all the other areas, the highly populated section of Ontario, and the journey is only about four hours from Toronto to Windsor where the consumption is located.

Mr. KERNS: You have a point. Fortunately in many respects we are located in the excellent area of London which is in the centre of our geographic franchising area, and then for us to take the produce say to a store in Owen Sound, or somewhere in the Georgian Bay area, would be more economical than in Windsor. However, you are right in your assumption that if the area between Windsor and Toronto were servicing it would be much better to have it done that way.

Mr. WHALEN: You have not answered me clearly, in fact you have only given me one answer, and I am not satisfied, on account of the produce going to Toronto and back to Windsor. I want to know why the quality is much higher in the Detroit stores than in Windsor.

Mr. KERNS: I would have to further make comment that I have observed that there are many small wholesalers in Windsor that buy second-rate merchandise out of the Detroit terminal. Detroit looks at the Windsor Canadian markets, as a dumping ground, even though they may pay the dumping duty on the merchandise coming over. They look at Windsor as an outlet for their products. We don't look at Windsor in that way, we think they are the most discriminating customers in Canada. We want them to have the best.

Mr. WHALEN: But what I am getting at is that the price in many instances is very much higher here, and yet you say that they are dumping this over in Windsor because their market cannot absorb it, so they send it to Windsor and it goes to London and Toronto and the quality deteriorates. I have brothers and sisters living in Detroit and the produce is many times lower in price, and they have never paid any duty.

Mr. B. LOEB: I would like to add one point at this time. I think you are asking the question of the wrong people, and this is not an attempt to be evasive. The percentage of the retail market that our franchise stores enjoy in Windsor is virtually negligible because we entered that market only about two years ago, and we have only seven stores in Windsor, none of which are large. I think it is more properly a question to be directed at the major chains who dominate the Windsor market.

Mr. WHALEN: Turning to your figures, do you have a large percentage? This is not true in Windsor, because I visited stores in Ottawa—and I am not going to name the stores—but as far as I am concerned, I don't know how their produce ever passed inspection, in a great many cases.

Mr. B. LOEB: It would appear that we need a new director of produce operations.

Mr. KERNS: I cannot speak for the general stores or go in to see their merchandising. However, the provincial inspectors and the warehouse inspec-

tors are continually visiting and they tell us that the finest quality of merchandise is brought into Canada by M. Loeb Limited—out of California, Arizona, Florida or wherever we can buy the finest. We do not intend to pay higher prices than anyone else. We buy the best and the inspectors will bear me out on this 100 per cent.

Mr. WHELAN: As Chairman of the Agriculture Committee, we listen to the people who tell us they have a proper inspection of all food consumed in Canada. I am very dubious that they would have time to check on all produce put on store shelves, in Ottawa or any other city—although probably there would be quicker action in Ottawa than any other city because there is in Ottawa a source of inspectors that there is not in any other part of Canada.

Mr. KERNS: I could make the point that the inspection service is much better in the United States than it is in Canada, but the warehousing in Canada outshines the United States to such an extent that there is not even a basis of comparison. The inspectors do a good job, even though they are not able to do both wholesale and retail, and we put in assistants at the wholesale of M. Loeb Limited to augment our service. We have only the best warehouses and stores. Produce is a very erratic and an unpredictable business. If we have too much rain, or if it freezes or there are droughts, the goods deteriorate, perhaps with the retailer or the wholesaler or in transit. We cannot control all of the variables of a product which has a short life and which consists of cutting, packing, shipping, transporting, warehousing, the goods sent to the store, put on a rack, put in a refrigerator, and offered to the consumer.

Mr. WHELAN: Do you ever go to meetings with the other buyers of all stores, to set the produce prices similar to yours?

Mr. KERNS: We do not meet with any store organization at any time to set any price. We are not in the price setting business.

Mr. WHELAN: On advertising, in the case of the Jolly Green Giant or H. J. Heinz, for example, if they came to your store with a new product and wanted to put it in, do you charge to them the advertising for the initial effort?

Mr. B. LOEB: Mr. Norman Lesh, Director of Merchandising, will answer that.

Mr. Norman Lesh, Director of Mechandising, M. Loeb Limited: Could I have the question again, please?

Mr. WHELAN: If I am a processor of food stuffs and if I have a new product I want to put on your shelves and if I bring it to you and point out how good it is and state the tests and ask you to try it by taking 1,000 cases; and if you put on an advertising program which costs $5,000, is that charged back to the processor?

Mr. LESH: The processor introducing a new product generally will give an allowance for the introduction. It may be 50 cents a case for the initial purchase, to interest us in putting it into our store.

Mr. WHELAN: I cannot understand how independently your stores operate, when all the IGA stores have the same price. Everyone who has an IGA store must have agreed to these prices, because they are all the same.

Mr. LESH: We have a program for our retail stores. We are given the responsibility by the retailers to establish their merchandising program.

Mr. WHELAN: What if an independent—a so-called independent—grocer refuses to abide by this? Is his franchise taken away from him?

Mr. LESH: Not generally. The advertising that is done—

Mr. WHELAN: Is he reprimanded?

Mr. LESH: I would say he would be reprimanded, or convinced—

Mr. WHELAN: He is not so independent, then?

Mr. B. LOEB: I do not believe he is reprimanded—but there is friendly persuasion.

Mr. WHELAN: To get back to processing, and taking canned produce, is there a system in your organization where, if you put these big advertisements in and have a special, say, in corn, this is carried back to the processor?

Mr. LESH: We do charge advertising fees to the suppliers, based on a structure that they generally give us. They have set allowances. In the case of people like the Jolly Green Giant, which you mentioned, I believe it amounts to 10 cents a case, that they allow us for advertising.

Mr. ALLMAND: Mr. Loeb, I have before me a cutting from the Ottawa Journal of September 30, with the headline "Loeb Lectures Housewives on How to Buy, Cook and Save". In this press conference that you held, and from the article I have before me, it is implied that the rise in prices, the increase in food prices, has been due to the fact that you say here that the housewife shops at high price, and also the fact that she is buying convenience foods. Mr. Loeb, we have had people here from the Dominion Bureau of Statistics, who have shown that within the last two years the food prices have had the greatest increase, compared to other consumer prices. Two years ago we had convenience foods and we also have seen that in those two years it is not just convenience foods that have gone up, but the price of meats and canned goods, both of which we had two years ago. These have increased considerably in price. From all these things it seems that it is doubtful that the fact that people are buying convenience foods has bid up the cost of food. I would like you to explain this.

Mr. B. LOEB: At the outset, I would like to mention that the quotation you referred to is not mine but that of Mr. Richard Jackson, who was not present at the press conference, so I deny emphatically most of the statements made in that article.

Mr. ALLMAND: You did not make these?

Mr. B. LOEB: No sir, and that can be evidenced by the number of other correspondents present. These are primarily Mr. Jackson's own words and ideas, culled from here and there.

Mr. ALLMAND: You do not agree with this?

Mr. B. LOEB: No, sir.

Mr. ALLMAND: There was a suggestion here, made by you—but it may be that it was not you—that the housewife could make things such as pies and other things cheaper than she could buy mixes or buy ready-made pies. Did you make that statement?

Mr. B. LOEB: I do not recall making that statement. What I did state at the press conference was that, because of our affluent society, there is a tendency on the part of housewives to buy more convenience foods today than they did a year ago or two years ago, and that there is a price to pay for the packaging, the trimming of steaks ready for the barbecue or oven, as against buying food which requires preparation. This was the gist of the statement; and that during periods of high prices there were varieties of foods at lower costs as indicated by the Canadian Association of Consumers—and it is primarily with them that I was agreeing. There were lower-priced cuts of meat, there were other types of produce, other forms of food. There was powdered milk, as against whole milk. There were other forms of meat, as against the prepared trimmed, ready for the oven meats. Fresh vegetables were cheaper than frozen vegetables but they required work in cleaning and cooking, whereas frozen foods were convenience

foods. This was the gist of my discussion at the press conference and Mr. Jackson has taken it out of context entirely.

Mr. ALLMAND: After I saw this article I asked several housewives if in fact they could bake pies or make cakes cheaper than they could buy them, let us say, at the supermarket. They said no, they could not—I am not a cook—they said it would cost them more to buy the ingredients of a pie and make it, than to buy the convenience food. I am wondering if you had ever made a study of this. Have you ever taken the produce off your shelves which would go to make a pie and added up the prices and then compared it with the pies ready as convenience foods that you sell. Have you ever done that?

Mr. B. LOEB: No, I have not.

Mr. ALLMAND: So you really do not know whether the convenience food is more expensive an item than, say, a pie which is made from the ingredients individually.

Mr. B. LOEB: I think that is a highly personal matter, depending on how efficient the cook is and the type of ingredients she uses. It is a difficult thing to answer. It is a question of whether you used butter, vegetable shortening or animal shortening. There is the question of the type of flour. There is the question of the fruit, frozen fruit, fresh fruit or canned fruit. It is a very difficult question to answer and I would not dare.

Mr. ALLMAND: I will move to another area. Other witnesses before us provided us with lists of products that they sell in their stores, with the prices they paid for them, compared with the mark-up selling price, so that we could compare the margins on different products. Now, we do not have any such list from you, and I wonder if you could supply one to us?

Co-Chairman Senator CROLL: Mr. Allmand, we have a basket list here that we have been using, and I intended to give Mr. Loeb a copy of it.

Mr. ALLMAND: The list I wanted included a breakdown of their costs, too.

Co-Chairman Senator CROLL: The list I am referring to is the original list that we handed to each witness. It has on it the profit margin for the previous year and for this year, and there are 20 or 30 products marked on it. What else would you like?

Mr. ALLMAND: The other witnesses, Mr. Chairman, also gave us a breakdown of how much they spent on advertising and so on.

Mr. B. LOEB: This is contained in Appendix A.

Mr. ALLMAND: I looked at Appendix A, but I did not think it showed that.

Mr. B. LOEB: It shows our advertising cost for last year in dollars and also as a percentage of sales.

Mr. ALLMAND: I will look through that once more, then. I did not think that it contained as much as it should. Now, Mr. Loeb, do you have any competitors in the distribution business who do the same sort of thing that you do? In other words, do these independent grocers have a choice of distributors in the Ottawa area?

Mr. B. LOEB: We have substantial competitors in every area of our operation.

Mr. ALLMAND: How many competitors do you have in the Ottawa area who do the same type of thing you do?

Mr. B. LOEB: Now, you say "do the same type of thing" that we do. What does that mean? Do you mean provide the same type of services that we provide?

Mr. ALLMAND: Not the same, but who supply goods and the same type of services.

Mr. B. LOEB: In the city of Ottawa we have two other competitors who provide the same goods and services that we provide in some areas. In respect to perishable goods we have five competitors; in respect to groceries we have three competitors, but two provide the same complete range of goods and services that we provide.

I should tell you even more: I think we have more than that, because Montreal wholesalers operate in our area just as we operate in the Montreal market.

Mr. ALLMAND: Were there more competitors in this area two or three years ago, or let us say three years ago?

Mr. B LOEB: Yes, there were.

Mr. ALLMAND: Have you bought out any competitors?

Mr. B. LOEB: One.

Mr. ALLMAND: Only one? And this is in the Ottawa area, is it?

Mr. B. LOEB: I would not say we bought him out. I think we salvaged the operation. If you would like to see the financial statement of the competitor we bought out, it is available.

Mr. ALLMAND: Mr. Loeb, do you have any type of premium stamps?

Mr. B. LOEB: We do not own or operate a stamp company, but our retailers distribute trading stamps.

Mr. ALLMAND: In your appendix you have Sales and Gross Profits as Item 1. In that you have given the percentage of sales for 1965-66 as 6.63. Is this compared with the approximate 2 per cent that the retailers who have been before us make on sales?

Mr. B. LOEB: This has nothing to do with the retailer.

Mr. ALLMAND: What I am trying to say is, do you make 6.63 cents per dollar of sales?

Mr. B. LOEB: This is our gross profit. 6.63 is our gross profit on the merchandise we sell to our retailers.

Mr. ALLMAND: Now, the other people before us have been giving us a percentage of the profit they make on dollar sales. What is your percentage on the dollar?

Mr. B. LOEB: I covered that in my talk. It is nine-tenths of one per cent after taxes. This is our net profit as a percentage to sales. The net profit as a percentage to sales is 1.8 before taxes and .9 after taxes.

Mr. ALLMAND: That is all for now, Mr. Chairman.

Co-Chairman Senator CROLL: We will have Mr. Horner.

Mr. HORNER (*Acadia*): Mr. Loeb, in your financial statement which has been distributed you have the following assets listed: Total preferred assets, fixed assets, total intangible assets, for a grand total of $29,448,267.

Would you say that that was the total capital invested by your company in wholesale business?

Mr. B. LOEB: I will let Mr. Greig answer the financial questions.

Mr. Thomas Greig, Director of Finance, M. Loeb Limited: My name is Tom Greig; I am Vice-President of Finance of M. Loeb Limited. The figure would be somewhat larger because we have written off approximately $3 million in intangible assets. Actually, to be more precise, it would be $32½ million.

Mr. HORNER (*Acadia*): In Appendix A to your brief, I noted this morning that profits were $13 million. Am I reading that correctly?

Mr. B. LOEB: No, you are not. I wish they were $13 million.

Mr. GREIG: Excuse me, but that is gross profits before operating expenses. They come off that to give the net profits.

Mr. HORNER (*Acadia*): Where is the net profit?

Mr. GREIG: You will see that on the preceding page of the financial report. For last year it was $1,800,000.

Mr. B. LOEB: I might mention that we were asked to submit gross profit, but not net profit. However, net profit is covered in the financial statement. Last year the net profit was $1.8 million, or .90 per cent on $200 million in sales.

Mr. HORNER (*Acadia*): What percentage does that work out to in invested capital?

Mr. GREIG: To make a quick calculation in my head, I would say that comes out to about 5½ per cent or 5¾ per cent.

Mr. HORNER (*Acadia*): I have a further question. As regards the cost of merchandising, in Appendix A you give $5.68 as the average cost per case for 1965-66. Is what you are referring to here a standard case of 24?

Mr. B. LOEB: This would be on balance of the total number of cases and total variety of merchandise we carry. We find that, if we distribute 100,000 cases of merchandise in a given week to our retailers, the total value of that merchandise would be $568,000. That could consist of a case of baby food worth $2 and a case of coffee worth $10; it could consist of a case of cereal worth $4 and a case of salmon worth $40. So, on the average, it would come out to about $5.68 per case of merchandise.

Mr. HORNER (*Acadia*): It is a poor figure to use, though, taking into consideration the varying sizes and costs of cases.

Mr. B. LOEB: All it does is give a trend of increase in the average cost of a case over the past five years, and this, again, was some information we were requested to submit.

Mr. HORNER (*Acadia*): It gives the trend, but one cannot base anything else, really, on that, then.

Mr. B. LOEB: The only real and accurate answer to your question would be to take all our group commodities, what we call family groupings, and try to classify, for example, canned fruits as one commodity, canned vegetables as another, baby food as another, soap products as another, and so on and so forth. Then it would show the trend in each family grouping.

Mr. HORNER (*Acadia*): I would like to go back and ask Mr. Greig a question. I see that your gross profits have increased substantially. Has your net profit increased in the same ratio?

Mr. GREIG: I am not quite clear on the question.

Mr. HORNER (*Acadia*): I see in Appendix A that the gross profit has risen from $5½ million in 1962 to $13.2 million in 1965-66.

Mr. GREIG: That is true, sir, but, as a percentage of sales dollars, the percentage has not changed. In fact, since five years ago it is down. What the consumer pays contains a percentage profit which has not changed. The factor included in the sales dollar price which the consumer pays has not changed. The volume has gone up, of course, and, therefore, the profit has gone up. To answer your question on net income after taxes, you will find this on the third last page of the report; under the last ten years of our operations, it shows the net operating income after taxes.

Once again the dollar figure has certainly gone up, as you would expect from the volume having increased, but the percentage has not gone up.

Mr. HORNER (*Acadia*): Has M. Loeb Limited got shares for sale in the company, or is it closed?

Mr. B. LOEB: M. Loeb Limited is a publicly-owned company with 7,500 shareholders in the United States, Canada and overseas.

Mr. HORNER (*Acadia*): Has the value of these shares increased over the last ten years?

Mr. B. LOEB: You are getting on to a very delicate subject, particularly with market conditions as they are. The company went public in 1959. The shares at that time were issued at $6.50 per share. The price of the shares rose from $6.50 to $27.00 over a period of three years. The stock was split three for one, resulting in the price coming out at $9.00. Two years ago the stock climbed to a high of $18.00. It is now down to $10¾, the figure as of last night's close.

Mr. URIE: Mr. Loeb, you have mentioned several areas in which your firm does business. How are these areas allotted?

Mr. B. LOEB: With respect to IGA franchise operations?

Mr. URIE: Yes, I think we should confine it to that.

Mr. B. LOEB: In Canada there are six IGA franchise holders, and the IGA franchise is allocated by headquarters on the basis of provincial boundaries, and in the two most populous provinces, Ontario and Quebec, on the basis of counties. Our company has franchises in the counties comprising eastern Quebec, northwestern Quebec and northern Ontario, the Ottawa Valley from Hawkesbury in the east to Kingston in the west, and a fourth in southwestern Ontario from Brantford to Windsor and north to Owen Sound. These are our four franchise territories.

Mr. URIE: You pay some organization an annual fee for the privilege of obtaining these franchises?

Mr. B. LOEB: It was granted in 1951 and we pay for the franchises, for services supplied by IGA headquarters 1/14 of one per cent of our dry grocery sales. That sounds like a complicated formula, but I would mention that during 1965—and I want to be sure my memory serves me well—the total fees paid to IGA headquarters for the services they provide to us in advertising and supervision amounted to $45,000.

Mr. URIE: Is that up from the previous year?

Mr. B. LOEB: Only in so far as it relates to the increase in volume.

Mr. URIE: What are the services they provide?

Mr. B. LOEB: They provide advertising material, merchandising assistance and group purchasing enabling us to buy collectively and to compete with corporate chains.

Mr. URIE: In dry goods?

Mr. B. LOEB: In perishables as well. By pooling the resources of the various depots we are able to buy turkeys, for example, for Christmas and for Thanksgiving at prices which will make us competitive with the corporate chains.

Mr. URIE: There are other franchise holders in Ontario and Quebec?

Mr. B. LOEB: Right.

Mr. URIE: How many others are there in Canada?

Mr. B. LOEB: Are you talking about IGA or competitors?

Mr. URIE: IGA.

Mr. B. LOEB: There are seven in all Canada.

Mr. URIE: How many wholly-owned subsidiaries do you have?

Mr. B. LOEB: Our wholly-owned subsidiaries—there are seven subsidiaries, four of which are IGA franchise holders and three others wholly owned by the company.

Mr. URIE: Can you tell me the names of the organizations dealing first of all with IGA franchise holders?

Mr. B. LOEB: One is M. Loeb (London) Limited, which holds the franchise for southern Ontario. Then there is M. Loeb (Sherbrooke) Limited which holds the franchise for the Eastern Townships. Another is A. A. Drouin, Inc., which holds the franchise for northwestern Quebec, and another is Lafortune & Gagné Limitée of Rouyn which holds the franchise for northern Quebec. Ours is a consolidated statement.

Mr. URIE: What are the others?

Mr. B. LOEB: One is George Painchaud, Inc., a wholesale tobacco distributor in Montreal, and another is Casselman Creamery, which is a small creamery producing cheese, butter and powdered milk. Another is Capital City Cartage Ltd., which handles all our transportation for us.

Mr. URIE: The sales of those three companies are also consolidated?

Mr. B. LOEB: Capital City Cartage has no sales, and the creamery sales are eliminated because most of the products of the creamery are sold through our own company.

Mr. URIE: Your inter-company sales in those companies are eliminated?

Mr. B. LOEB: Yes.

Mr. URIE: You own interests in other companies? What about Horne & Pitfield?

Mr. B. LOEB: We have no affiliation with Horne & Pitfield Foods in Alberta. I happen to be president. But M. Loeb Limited does not have one share of stock.

Mr. URIE: Are any of your officers or directors officers or directors of Horne & Pitfield Foods Limited?

Mr. B. LOEB: Yes, one of our directors is.

Mr. URIE: There is no investment of capital in it?

Mr. B. LOEB: None.

Mr. URIE: What about the National Drug and Chemical Company of Canada Limited?

Mr. B. LOEB: M. Loeb Limited holds 31 per cent of the stock in National Drug and Chemical and four directors of M. Loeb Limited are directors of that company.

Mr. URIE: Out of how many?

Mr. B. LOEB: Four out of eight.

Mr. URIE: The sales are not shown then?

Mr. B. LOEB: They are not consolidated. They are carried as an investment.

Mr. URIE: Are all your purchases in drugs and chemicals bought from National Drug and Chemical?

Mr. B. LOEB: We buy nothing from National Drug. We are not in the drug business, and the limited lines of health and beauty aids which we carry are purchased direct from manufacturers.

Mr. URIE: Are there any other companies that you have an interest in in Canada or the United States?

Mr. B. LOEB: Do you mean M. Loeb Limited?

Mr. URIE: Yes, Loeb's.

Mr. B. LOEB: We have a 60 per cent interest in a company called Loeb-City Products Ltd., which is a small company in terms of volume and which distributes non-food items—that is variety merchandise—to the stores and some

franchise outlets. The remainder is owned by City Products Corporation of Chicago.

Mr. URIE: Loeb-City Products Ltd. does not operate in the United States?

Mr. B. LOEB: No.

Mr. URIE: On page 9 of your brief you mention the fact that the approximate net profit on sales of each of your retail operators is 2 per cent. Is there a marked variation from store to store which would result presumably from the efficiency of the operator?

Mr. B. LOEB: I will ask Mr. Rabinovitch, Vice-President in charge of Retail Operations, to give you that information.

Mr. Jack Rabinovitch, Vice-President, Retail Operations M. Loeb Limited: I am Jack Rabinovitch, Vice-President in charge of sales. When I joined M. Loeb Limited in early 1960 the net profit of the average independent supermarket was approximately 2 per cent. It still is today, even this morning when I read some financial statements.

Mr. URIE: Since you have a rather close connection with IGA in the United States and more particularly with City Products in Chicago, have you any idea of your net profits as a percentage of sales as compared with those in the United States?

Mr. RABINOVITCH: I do not have any specific facts regarding independent retailers in the United States, but from hearsay information it seems to me to be substantially the same if not a little higher in the United States.

Mr. URIE: It is rather higher than 2 per cent?

Mr. RABINOVITCH: Right.

Mr. URIE: Do you have any comment to make with respect to evidence adduced before us by several supermarket chains that their American affiliates' percentage of net profits to sales is substantially lower in the United States than in Canada?

Mr. RABINOVITCH: I have read the information. The only assumption I can make is that in the United States the independent is operating much more efficiently than the chain.

Mr. URIE: Have you made any calculation, Mr. Loeb, or have any of your people as to the return on your investment as a percentage? You have given us a figure of 9/10 of one per cent.

Mr. B. LOEB: The return on investment is a very nebulous thing. It depends on what you calculate as your investment and its net worth. If you will examine Note 12 in the balance sheet in our financial statement, you will observe that our company has assumed contingent liabilities and have guaranteed bank loans and mortgages on behalf or our retailers to the tune of $3,516,400.

In Note 13 you will observe that we have assumed rentals on behalf of our retailers in the sum of $1,654,000.

I think in properly calculating investment one must add the $3½ million to the investment because it was made on behalf of the retailers, so it is a difficult question to answer.

Mr. URIE: I agree it is very difficult, and you can have almost as many theories as to what constitutes investments as there are accountants. But has that ever been calculated and, if so, what method of calculation have you adopted in your firm?

Mr. B. LOEB: We have not calculated it. We look for net profit dollars in order to come up with adequate earnings per share, primarily to keep our shareholders satisfied and to try, wherever possible, to increase our dividends.

I might mention in passing, though this has nothing to do with your question, that our company pays the lowest dividend of any food distributor in Canada and I am not proud of it.

Mr. URIE: As a shareholder, I know that! However, I am speaking only as counsel this time, and not as a shareholder, Mr. Loeb.

What percentage of your total sales go through your cash and carry distributors as opposed to your sales to franchised dealers?

Mr. B. LOEB: About 15 per cent of our total sales are through our cash and carry warehouses to small, independent merchants.

Mr. URIE: Have you made any comparison of your net profits on those sales, as compared to the net profit on sales to your franchised dealers?

Mr. B. LOEB: On balance, they come out about the same.

Mr. URIE: What do you mean by "on balance"?

Mr. B. LOEB: It depends how you allocate certain expenses. I will allow Mr. Greig to answer that one.

Mr. GREIG: Would you mind repeating the question, please?

Mr. URIE: Have you done a special calculation of the net profit on sales to your cash and carry stores, as opposed to your sales to retailers?

Mr. GREIG: No. There is a basic problem involved in trying to allocate overhead to supply distribution depots. Some of the expense you can incur at the supply level relates to items going to the cash and carry level. There are additional ones such as separate warehouses, buildings and personnel. The same price gives us absolutely the same return on those sales as sales from the supply depot.

Senator O'LEARY (*Antigonish-Guysborough*): Mr. Chairman, page 1 of the brief, on distribution. You state there are eight distribution centres in Ontario and Quebec, and 33 cash and carry warehouses. Do you have any provincial warehouses or sub-warehouses to serve as provincial centres, for example, for I.G.A.?

Mr. B. LOEB: I am not sure I understand the question, sir.

Senator O'LEARY (*Antigonish-Guysborough*): An I.G.A. store, for example, operating in the Province of Nova Scotia, where would he secure his supplies?

Mr. B. LOEB: As I mentioned in answer to Mr. Urie's question, there are seven I.G.A. franchise holders in all of Canada.

Senator O'LEARY (*Antigonish-Guysborough*): Six or seven?

Mr. B. LOEB: Seven. Just for identification, I will list them so they will be on the record. There is one for the maritime provinces, headquartered in Halifax. There is one for the eastern townships, headquartered in Sherbrooke, which is a wholly-owned subsidiary of M. Loeb Limited. There is one for greater Montreal, headquartered in Montreal called Shop and Save. There is one for the Ottawa valley, that is the greater Ottawa valley, which is our own base company. There is one for northern Ontario, serviced out of our company in Sudbury. There is one for northwestern Quebec, serviced by our company in Rouyn, Noranda and Amos. There is one for greater Toronto, serviced by Oshawa Wholesale. There is one in London, Ontario, servicing southwestern Ontario, wholly owned by M. Loeb Ltd. There are three western ones: one in Winnipeg, servicing Manitoba and Saskatchewan; one in Alberta; and one in British Columbia.

Senator MCDONALD: A supplementary, Mr. Chairman. What is the name of your one in Winnipeg?

Mr. B. LOEB: It is not ours in Winnipeg. It is the Codville Company.

Mr. URIE: Is Horne and Pitfield Foods the Alberta one?

Mr. B. LOEB: Yes, Horne and Pitfield has the franchise for supplying I.G.A. stores in Alberta.

Senator O'LEARY (*Antigonish-Guysborough*): Page 5, No. 4: "The voluntaries have become more efficient in many phases of distribution than the chains." Are you speaking of certain types of products? Could you give an example of where the voluntaries are more efficient than the chains?

Mr. B. LOEB: The voluntaries have become more efficient in the distribution of foods than the chains by virtue of their having to supply hundreds of small stores rather than a small number of large units. As you know, it costs much more to service 100 small stores than five larger ones. The fact we have been able to service these stores and make them competitive with the chains indicates we are operating more efficiently than they are.

Senator O'LEARY (*Antigonish-Guysborough*): On the contractual basis you have with your franchise stores, as opposed, we will say, to the corner store, I presume there is a difference in the type of contract you have?

Mr. B. LOEB: There is no contract with the small stores. They are free agents and can buy wherever they wish.

Senator O'LEARY (*Antigonish-Guysborough*): Page 7, on the cost-plus basis that you use for the retailer. You stated that there has been no change in this charge for the past 15 years. This, of course, is a percentage figure you are using. There is no change in the percentage figure. Does this rate remain the same for all retailers, regardless of volume?

Mr. B. LOEB: No, it is a sliding scale based on volume—the larger the purchase the lower the percentage.

Senator O'LEARY (*Antigonish-Guysborough*): Page 9, institutions being supplied by the wholesale distributor. You do not have any conflict here with the retailer in this respect?

Mr. B. LOEB: No, these institutions. When I say "institutions" these are organizations that consume food that is served on the premises and they do not sell it. For instance: we supply the Civic Hospital in Ottawa; we supply Carleton University; and we supply restaurants. There is no conflict with the stores because the types of commodities these institutions buy are generally not sold at retail stores.

Senator O'LEARY (*Antigonish-Guysborough*): They would buy them from some other wholesaler?

Mr. B. LOEB: Yes, they have a choice here. On the question of institutions, any institution in Ottawa could buy the same thing at five different large wholesalers.

Senator O'LEARY (*Antigonish-Guysborough*): Page 11. I am interested in this paragraph 2: "Of the number of new items introduced by manufacturers annually, the mortality rate is 95 per cent." Are you happy about this?

Mr. B. LOEB: We are very unhappy about this, but it is beyond our control. I would like to ask Mr. Norman Loeb, the chairman of the board, to give you one indication of one particular situation we had concerning the number of items, the duplication, and so on.

Mr. Norman Loeb, Chairman of the Board, M. Loeb Limited: Just going through our order volume book we find an item such as—if I may mention names of products—Heinz tomato juice, which we sell in six different sizes and packages: 48/6-ounce, 24/10-ounce, 24/15-ounce, 24/20-ounce, 12/48-ounce, and 6/105-ounce. And the wholesaler is being forced to carry six different sizes and cartons of the same commodity, which only adds to our cost and the cost of the store. Libby's beans has six sizes; Robin Hood flour, eight sizes; Lavo bleach,

six sizes; Gerber baby foods, 60 different flavours; dog and cat foods, 140 different sizes and brands of cat, dog and pet food.

Senator O'LEARY (*Antigonish-Guysborough*): Have you made a protest to the processors and manufacturers in this respect?

Mr. B. LOEB: We are in continual protest against new items being introduced, and we are not often successful. We are sometimes compelled to carry them because of the advertising and promotional efforts of manufacturers. But, we protest to them whenever they introduce a new line and we say "Please eliminate the old lines because our stores simply do not have the space to carry them."

Senator O'LEARY (*Antigonish-Guysborough*): I have one final question, and it is in respect to private label brands, which you say provides your retailer affiliates with a wide range of top quality food products manufactured by leading processors at substantially lower prices then nationally advertised brands. Are any of the private label brands on your retailers' shelves sold under brand names by the leading processors—that is, under their own names?

Mr. B. LOEB: We try to carry a broad range of merchandise, and we carry manufacturers' brands which are nationally advertised—generally, two or three diffrent names. We also have our stores feature private label merchandise, generally at a lower price. But, often these are manufactured by the same people who have their nationally advertised brands on the shelves.

Co-Chairman Senator CROLL: Excuse me for a moment, Senator O'Leary. Others are doing this, and some have already done it, and I will ask you to provide us with a list of your private label brands together with the national opposite number. Would you also, to the best of your knowledge, tell us what the difference in price is?

Mr. B. LOEB: Yes, I will arrange to provide that information for you.

Senator O'LEARY (*Antigonish-Guysborough*): Incidentally, Mr. Chairman, I believe we had one company before us which said it did not purchase any of its private label brands from leading processors. Do you recall that?

Co-Chairman Senator CROLL: It just occurs to me—I made a note here, but I cannot seem to find it; I have so many notes—following the evidence given by Mr. Loeb when he spoke of the number of Heinz bottles, and the number of other various products that are a headache to him, that in this submission he speaks about giving leadership.

Has it ever occurred to you, Mr. Loeb, that you might give some leadership in that field in cutting down on the things that are not comparable and which cause the housewife a great deal of confusion and misunderstanding as to price, and what she is getting? Is it not possible for you to say: "Well, here, we sell you a product and you can understand what you are getting and what you are paying"?

Mr. B. LOEB: Well, this is a rather difficult question to answer. When you ask if we can give leadership to the housewife—I do not think this is possible. We must make available to the housewife some of the items, and some of the merchandise that is available on the shelves of our competition. In certain areas there appears to be a demand for a small size can for apartment dwellers. In other areas there is a demand for a large can of food for families with a large number of children. In other areas the consumers want a medium size of can. If there were only three sizes of a particular commodity available then these are what we would carry, but the fact that we are compelled to carry six sizes means that our inventory is increased, our warehousing and distribution costs are increased, and so on. We are, as I mentioned earlier, merely distributors of whatever is offered to us, and of what we think our retailers can sell. This is

what we buy. But, I do not think that giving leadership to the consumer in respect of what she should buy falls within our field.

Co-Chairman Senator CROLL: Mr. Loeb, most of those who have come before this committee have said the very same thing that you have said. They have a lion by the tail, and they are afraid to let go in case the other fellow wont let go. Does this mean that we shall have to deal with labelling from a parliamentary point of view, and indicate what should be done? Are you going to leave it to Parliament to direct you, when you know that Parliament would rather you did it yourself.

Mr. B. LOEB: No, I do not believe that legislation is necessary, but I do believe that recommendations might come forth from this committee to the Grocery Products Manufacturers' Association that the number of sizes be reduced, and that the contents be more clearly identified, in the interests of the consumer.

Mr. SCOTT: May I preface my remarks by saying that for years there have been recommendations made to manufacturers in respect to the standardization of sizes, and that sort of thing. From what you have told us—and I can understand your position—you are pretty well powerless in this general field because of the competition and because of demand created by advertising. Would we not then be doing you a favour by designing a standardization code for the packaging and sizing of things? There would then be one standard range that the housewife could understand, and you would have less brands and less problems in respect of handling, and you would make more money.

Mr. B. LOEB: I think you would render a very valuable service in so doing, but I am wondering if it can be done just as well by recommendations, or by firm friendly persuasion, rather than legislation.

Mr. SCOTT: I wish you would define "friendly persuasion", because I want to come back later to that.

Mr. WHELAN: I have a supplementary question, Mr. Chairman.

Is it not the wholesaler who demands from the processors the kinds of cans he wants?

Mr. B. LOEB: No, sir.

Mr. WHELAN: Where did they dream up the idea?

Mr. B. LOEB: What idea?

Mr. WHELAN: Their idea of what the consumer needs. You are the ones who deal with the consumer, and not the processor. He does not deal directly with them.

Mr. B. LOEB: Most manufacturers in Canada—and you will be hearing from them—maintain tremendous research and development departments. They are the ones that come up with consumer research to determine what the consumer wants and what the consumer will buy. They run test studies in different marketing areas to determine what size of can of coffee will most appeal to the consumer, and whether the consumer wants new and different items, and so on.

Co-Chairman Senator CROLL: Do you mean to say, seriously that that crazy quilt of sizes of various articles comes about as a result of research?

Mr. B. LOEB: You had better ask that question of the manufacturers.

Co-Chairman Senator CROLL: But you just said a minute ago that they do the research and study, and yet you come here—and everybody who has come before us has said the same thing—and say: "Get us out from under this somehow or other. We are plagued by this". You say that the situation arises from the research on which they spend millions of dollars.

Mr. B. LOEB: We do not spend anything. We are merely one facet in the distribution pattern from the manufacturer to the consumer. We do not request

different sizes. On the contrary, we continually beseech the manufacturers to reduce their range of merchandise, and to have uniform packaging to facilitate our distribution. We have absolutely no control over the sizes or the contents.

Co-Chairman Senator CROLL: All I can say is that this has been a valuable morning for you, if I understand the mood of the committee they are going to help you. Senator Carter?

Senator CARTER: I think my questions have already been covered, but I would like to pursue just one more matter—the multiplicity of packages. You have protested to the manufacturers about this, and you have not had much success over the years. What reasons have they given you for not reducing the number of packages? It seems to me to be commonsense that if you had three or four sizes the cost would be less, and everything would be better all round. It does not make sense.

Mr. B. LOEB: Perhaps I can give you a little clearer picture when I say that sizes are only one facet. How would you like to get into colours, and find out that there are four major tissue manufacturers, each of which produces their own tissues in four different colours, and having to carry 16 colours of facial tissue. We have protested and told them that white, pink, yellow and blue serves the same purpose, and yet they feel they will increase sales. I am talking about facial tissue. We are compelled, in order to fulfill the advertising needs and to meet competition, to carry 16 types of facial tissue.

Senator CARTER: My question was: What answer have they given to you when you have protested?

Mr. B. LOEB: I will pass the ball.

Mr. LESH: I would say that basically the answer is that there is a demand for it. A demand is created in a particular locale. On the paper issue I would mention that there is a new package of Kleenex on the market which is slightly smaller and which is selling at a psychological price of 29 cents. Because of this psychological price the marketing of this item in a particular area of Canada—it happens to be in Western Canada—has caught on, to the dilemma of all the other manufacturers. They are faced with the problem of whether they should continue to lose a share in the market or to compete with a similar product, and really they have no alternative but to do just that. As this spreads across the country we will be in the position of having to have another 16 varieties of facial tissue to carry. We try to control this as best we can. We could not conceivably carry every size of package that is on the market. We try to trim the number down. We do have a little control, but we still have to be right in the market place both for the customers and our retailers.

Senator CARTER: You spoke about demand. Does anyone create the demand, or is it a natural demand?

Mr. LESH: The demand is created by sales. In many cases it is by trial and error. Of course, some is research. They establish a certain size of facial tissue which they find to be adequate. Variety is a need in the markets today. If you ask a panel of women who shop at a particular store what they want, among the top ten listed will be variety. We cannot expect, I believe, legislation that will be—

Senator CARTER: Effective.

Mr. LESH: Mind you, we do have legislation; there is legislation in your canned goods which limits the size to be marketed in Canada. This is going to be confusing because of the change of the legislation. We believe that the ten-ounce and other sizes are convenient, where you have a variety to meet every need.

Mr. WHALEN: Is white facial tissue the cheapest to buy?

Mr. LESH: No, they are the same price, basically the same.

Mr. WHALEN: Does it cost more to make a coloured one?

Mr. LESH: I would be only guessing. I would think it might even cost less.

Mr. WHALEN: It is luxury as far as colour is concerned. Why should the customer not know, why don't you advertise?

Mr. LESH: Our cost is the same and the retail should be the same.

Co-Chairman Senator CROLL: It is really part of our culture.

Mr. B. LOEB: Part of the vanity to match the colour picture.

Mr. LESH: There is one thing we should consider, that is the fact that the sale and the movement and the use of toilet tissues, facial tissues, have increased with the variety that is in the market.

Senator CARTER: Mr. Loeb, you have a number of affiliates, and not only provide them with goods but with various kinds of services. Do you assist them with their mark-ups?

Mr. B. LOEB: Yes, we give them suggested selling prices.

Senator CARTER: Do you have a system that you apply to all your affiliates?

Mr. LOEB: In broad principle, we use the same system. The suggested selling price that we recommend to our retailers is based on, first, their cost of doing business, which is pre-determined by a budget which we produce for each one; secondly, by the competitive situation in their market. It is the cost of doing business and the competitive situation in the market that are the two governing factors.

Senator CARTER: Do you hire one of the services that goes around and takes prices in various stores?

Mr. B. LOEB: No, we do not.

Senator Carter: How you keep track of your competitors?

Mr. B. LOEB: We subscribe to the Ambler Pricing Service, and to what we know as the Green Book, which gives us information on a continuing and regular basis; and when necessary we will have our own supervisors spot check stores locally to make sure that the prices of our franchise retailers are competitive with those of the chains.

Senator Carter: When you mention the various factors you take into consideration, when you recommend a mark-up to a specific dealer is there any one factor more influential than the others?

Mr. B. Loeb: No. It covers a broad range of expenses, of which labour is the chief one and represents, to the best of my knowledge, about 40 per cent of his total operating expenses. The other factors are his rent, and of course the cost of utilities, cost of packaging, and so on.

Senator CARTER: It is possible then that different I.G.A. stores in roughly the same area would have different prices?

Mr. B. LOEB: Not generally, but occasionally it does happen.

Senator CARTER: Somewhere in your brief I think you made a point that in terms of labour or salaries the proportion spent on food items, the food budget, has gone down to 19 per cent?

Mr. B. LOEB: Right.

Senator CARTER: Do you take that into consideration as a factor?

Mr. B. LOEB: No, we do not, because that information only comes to us post facto, and we have to watch it on a continuing basis week by week to make sure that our retailers do generate enough cash flow to enable them to meet their requirements and repay the financing which we have advanced on their behalf.

Senator Carter: Thank you.

Mr. JOYAL: Mr. Loeb, I am very impressed. You have convinced us that the miracle of food distribution is one of the greatest dramas of our time; but it seems that the pattern of your operations runs pretty well parallel with the operations in the retail and wholesale level. Your breakdown of advertising costs shows 1.2 per cent to gross sales for the last financial year. Does this include all types of advertising or promotion?

Mr. B. LOEB: Yes.

Mr. JOYAL: Apart from your newspaper advertising, what is involved in your promotional type of advertising?

Mr. LESH: The type of advertising? The advertising we do consists of all the media—radio, television, circulars, hand bills, billboards, any type of media available to us.

Mr. JOYAL: And Gold Bond stamps?

Mr. B. LOEB: They are not included. You must remember that we are presenting testimony on behalf of M. Loeb Limited, which is a wholesale distributor and do not own nor are involved in any distribution of stamps. This is the amount of money we have spent on behalf of the retailers in various forms in accordance with their views and our own combined decisions; but the stamps are a distinct cost of doing business for the franchise retailer.

Mr. JOYAL: What services do you provide for your franchise dealers with regard to Gold Bond stamps?

Mr. B. LOEB: When you say a type of service—

Mr. JOYAL: Do you provide the printing?

Mr. B. LOEB: No. We do absolutely nothing in respect to the stamp company except in terms of distributing the stamps to them as they require them on a weekly basis, and making sure that the premiums for redemption are delivered to the stores where applicable.

Mr. JOYAL: But who runs the premium redemption services?

Mr. B. LOEB: We are in no way involved with the stamp companies. It is run by the Gold Bond Stamp Company which provides all the goods and services for the stamp company to our stores.

Mr. JOYAL: Are the premium goods purchased from the premium company by you?

Mr. B. LOEB: No. We are not involved in any way, in any aspect, in any form of stamp program other than to ship the stamps from our warehouse to the stores and arrange for the premiums to be shipped from our warehouse to the stores. Other than that we perform no service to the stamp company, nor are we involved with them.

Mr. JOYAL: In other words, your franchise dealer does purchase these goods from your warehouse?

Mr. B. LOEB: There is nothing purchased. He purchases the stamps and with the stamps the premiums are provided when the stamps are surrendered for redemption.

Mr. JOYAL: But supposing you have these goods in your warehouse and they are subject to delivery to your retailers upon demand, isn't there a cost involved for warehousing and handling?

Mr. B. LOEB: I don't want to get into a long discussion on the method of distribution. Let us approach it a different way at this point.

Mr. SCOTT (*Danforth*): Who pays for the Gold Bond stamps?

Mr. B. LOEB: The retailer.

Mr. SCOTT (*Danforth*): The retailer pays direct?

Mr. B. LOEB: Through us. The retailer pays the Gold Bond Stamp Company for the stamps, but it is handled through our accounting, but that is the only connection we have.

Mr. SCOTT: So that on the invoice from you there is "X" number of stamps?

Mr. B. LOEB: If he needs ten poles at $9 a pad, that is our only connection; and with respect to premiums and delivery that is now being eliminated since the Gold Bond Company retain redemption centres and the customers go direct to them and surrender their stamps and pick up their premiums.

Mr. JOYAL: To the retailer would you suggest that this question of Gold Bond stamps and redemption would add cost to his operation?

Mr. B. LOEB: Yes, there is a cost to the retailer for use of stamps, just as there is a cost to the retailer for any other type of merchandising technique that he would employ.

Mr. JOYAL: Would it add cost to your operation?

Mr. B. LOEB: No, it does not add cost to our operation whatsoever.

Mr. JOYAL: Would it add cost to the consumer?

Mr. B. LOEB: We get into a long and involved debate now, as to whether stamps increase the price of food. My answer would be no, because if they do not use stamps they would use some other form of merchandising technique and the cost in fact would be the same. Furthermore, the consumer today has a choice of shopping at a stamp-giving store or at a non-stamp-giving store and basically the prices of food are reasonably the same in all stores.

Mr. SMITH (*Simcoe*): Does the IGA store operator have any discretion himself, if he is in some general area where the IGA stores are giving gold bond stamps—can one operator say "I do not want to subscribe to that, I do not want to use gold bond stamps in my store." Has he that right, or must he take it, along with all the other IGA stores in that area?

Mr. B. LOEB: He has the right to refuse, but again, I have to go back and say that he has found it to be more advantageous to use stamps than not to use stamps.

Mr. SMITH (*Simcoe*): But does he have the individual choice?

Mr. B. LOEB: He has that choice.

Co-Chairman Senator CROLL: You have told us that in your view these stamps or premiums do not add anything to the cost to the consumer. Mr. Meech of Loblaws stated in evidence that it would cost one per cent. Mr. Provost of the A&P did not disagree with me when I suggested to him that it would cost 2 per cent to the consumer. You still insist that it is all manna from heaven?

Mr. B. LOEB: No, stamps are not manna from heaven, stamps are something for something, rather than nothing for nothing. We can get into a long debate on this—I have debated this for 10 years. The fact remains that stamps have been in use for 10 years, and to use them as a whipping boy at this time as a factor in increasing the cost of food is gross unfairness. I have no interest whatsoever in the stamp company. At such time as the consumers would no longer wish trading stamps as a form of promotion, we will discontinue them and use some other type of promotion.

Mr. Joyal: Is your franchise agreement with your dealers or retailers a pretty standard form in terms of percentages for allowances for the services that you perform on their behalf? You mentioned earlier in evidence that you had these franchise agreements.

Mr. B. LOEB: You mean, is it the same for all retailers. It is, very definitely.

Mr. JOYAL: Can you provide a copy for us?

Mr. B. LOEB: Yes. We are making a note of that.

Mr. JOYAL: Under this agreement, are there any special restrictions which would preclude an independent member of your group from buying direct from a manufacturer or producer?

Mr. B. LOEB: No, there are no restrictions. The reason they do not buy direct is that the manufacturers do not sell direct.

Mr. JOYAL: Are there any instances where he would buy such produce, but it would be shipped direct to him, not from your warehouse but direct from the producer or manufacturer?

Mr. B. LOEB: Shipped direct but invoiced from us?

Mr. JOYAL: Yes?

Mr. B. LOEB: In many instances, yes, and by so doing we are able to avoid warehousing charges and have the merchandise landed in his warehouse at less cost. That occurs especially in the case of perishables—bakery products, ice cream, milk and so on.

Mr. JOYAL: In those instances where shipment is made direct from the producer or manufacturer, what is your mark-up on those items, your average mark-up?

Mr. B. LOEB: The average mark-up on those items is about 2 per cent.

Mr. JOYAL: Does your company pay any fees, management fees or consultant fees, to any other company—in the same way as your own retailers in your chains pay a certain amount to you for services?

Mr. B. LOEB: No, other than what I mentioned to Mr. Urie, through IGA headquarters. We pay no management or consultant fees to anyone at any point, other than the normal audit or legal fees, no management or consultant fees.

Mr. SCOTT (*Danforth*): You told us you would be filing us a copy of the franchise agreement. Could you also file with us a sample copy of the subleases that you use?

Co-Chairman Senator CROLL: You want the standard form?

Mr. B. LOEB: I will file a copy of the sublease. We will also provide a copy of the head lease, because the sublease is identical to the head lease except where there are specific provisions in an area. We will provide copies of both.

Co-Chairman Senator CROLL: In filing with us a copy of your franchise agreement, please give us a typical agreement filled in, not just the form.

Mr. B. LOEB: I will sent you a photostatic copy of a binding signed agreement of an average retailer.

Mr. SCOTT (*Danforth*): Could you also give us a breakdown among the 450 stores, not by name, that would not be reasonable. I would like to know how many of these are sublease stores, as opposed to how many are under the head lease.

Mr. B. LOEB: How many are sublease as opposed to those under head lease? All those under head lease are subleases.

Mr. SCOTT (*Danforth*): Just give the last figure, how many of the 450 would be on sublease?

Mr. B. LOEB: Right.

Mr. SCOTT (*Danforth*): One other point is still disturbing me, that is, the relationship between your stores and yourselves. You tell us that you supply them with a suggested price list. It is presumed that you make up this price sheet. Then you said that if they do not abide by it, they were subject to what you called friendly persuasion. I just wonder could you expand on that a bit.

Mr. B. LOEB: You can take friendly persuasion in whatever context you wish. We simply show them, primarily from figures provided by our retail

accounting services, which we do for all retailers. This accounting service is mandatory. If we provide financing for a retailer, he must subscribe, in his interest as well as in ours. It is often a condition of the lender—a bank, finance company and so on—that he subscribe to our retail accounting services. This provides him, on a period basis—a period being four weeks—with a profit and loss statement and balance sheet. We show him that, unless he generates sufficient cash flow from the operation, he will not be in a position to meet his commitments to the lender. In order to generate that cash flow he must have a balanced program, which means a certain gross profit percentage in each department of his store, whether it be groceries, produce or meat. This is essential for him to follow, in order that his gross profit will be such that, after deducting his operating expenses, he will be left with about 4 per cent, before tax, or 2 per cent after taxes, plus the cash flow from the depreciation, and thereby repay the investment that has been made by us on his behalf.

Mr. SCOTT (*Danforth*): You are telling us that what you have just described now is the only form of influence or pressure or persuasion that you exercise over these stores?

Mr. B. LOEB: We do not apply any pressure on him in that sense. It is simply a matter of good business. Primarily, we point to successful operators and say "If you will follow the example set by retailer X you will come out with his net profit and with his growth potential."

Mr. JOYAL: As part of your services to your retailers, do you disclose to them what should be the average cost of promotion gimmicks, such as gold bond stamps?

Mr. B. LOEB: Yes, they are completely disclosed, because they are on the operating statement. They know the cost of every one of their operating items, ane if they have trading stamps and the cost is 1.75 of sales, this is included in their operating costs.

Mr. SCOTT (*Danforth*): In your brief you mentioned that as to all of your other competitors, you can come up with a private label that is able to be sold at an amazing reduction from the national brand. What is the main reason for that?

Mr. B. LOEB: There are several reasons for that. First of all, the manufacturer does not incur any selling expense when he manufactures a private label for us, so that his selling expense, which is a considerable factor, is eliminated:

Secondly, the manufacturer does not incur any advertising or promotional expense in the introduction of the product to the consumer.

Thirdly, these items are generally ordered in large quantities, generally carloads or truckloads, and, thereby, can be sold at a lower price.

Fourthly, the manufacturer does not accept any returns on that merchandise. There is no damage allowance or unsaleable goods allowance.

Fifthly, there is no protection against market decline, which could happen in the case of manufacturers products.

When you add all these things together, the manufacturer can produce a private label product at a lower price than he can produce a nationally advertised product.

Senator MCDONALD: You told us a moment ago that I.G.A. stores in Manitoba and Saskatchewan were distributed by Codville in Winnipeg. What is the association between Codville and yourself?

Mr. B. LOEB: There is no official association between Codville and ourselves, other than the fact of common identification, and that we are both shareholders of I.G.A. of Canada Limited. I.G.A. of Canada Limited has no relationship with I.G.A. of the United States, and is wholly owned by seven I.G.A. supply depots

in Canada, and our relationship with Codville is, then, simply as a common shareholder in the Canadian headquarters.

Senator McDonald: Would the operations of I.G.A. Canada Limited show up in your balance sheet?

Mr. B. LOEB: No, not whatsoever. The only reference would be as an investment on our part in the shares of I.G.A.

Senator McDONALD: Mr. Olson, one of our committee members who is not with us this morning, has been asking a series of questions with regard to meat. I presume that you are in a position a little different from the chain store in so far as the handling of meat is concerned, in that you are a wholesaler providing, chiefly, independent grocery stores with which you may have a working agreement or may not.

Now, where do you buy your meat products, and I am talking about fresh meats?

Mr. B. LOEB: Well, physically, we do not handle any meat, but for any questions relating to our meat operations I would like to call upon Mr. Fischer, who is the Vice-President in charge of Meat Operations.

Mr. J. Fischer, Director of Meat Operations, M. Loeb Limited: I am J. Fischer, Vice-President in Charge of Meat Operations. The question was where do we purchase fresh meat. We purchase it primarily from the major packers, Canada Packers, Burns, and the predominant packer in the area.

Senator McDONALD: What services do you provide to the meat before it goes to the retailer?

Mr. FISCHER: Other than setting up buying offices across the country, which we have established in every one of our divisions, we have in every one of our divisions meat merchandisers who in turn have three, four or five supervisors under their management. We also supply buying office facilities which are comparable to what the major chains have.

We primarily purchase our meat on the open market, based on price and quality.

Senator McDONALD: Then you distribute it?

Mr. FISCHER: We do not distribute anything through the warehouse. We have a drop ship program. Orders come into the central buying office; we in turn place the orders with the packers, based on quality and price, and the packers in turn deliver the goods.

Senator McDONALD: They deliver the meat?

Mr. FISCHER: They deliver the meat and they bill through our warehouse. We are responsible for the credit of every one of our independent retailers.

Senator McDONALD: But you do not actually, physically, handle the meat at all?

Mr. FISCHER: No, other than the odd item such as frozen turkeys or things like that.

Senator McDONALD: Do you purchase any meat outside Canada?

Mr. FISCHER: No.

Senator McDONALD: In any quantity?

Mr. FISCHER: No.

Mr. B. LOEB: What about New Zealand?

Mr. FISCHER: New Zealand lamb and Australian lamb come primarily through the major packers.

Senator McDONALD: Do you not buy any pork in the United States?

Mr. FISCHER: No, not directly.

Senator McDONALD: No bacon or turkeys?

Mr. FISCHER: No bacon or turkeys, no.

Senator McDONALD: Why do you not purchase bacon in the United States?

Mr. FISCHER: For what reason, sir?

Senator McDONALD: Is it not cheaper?

Mr. FISCHER: First of all, that would put us into the wholesale or distribution of meat products.

Senator McDONALD: No, I do not agree. You are acting as an agent now as far as meat is concerned.

Mr. FISCHER: Right.

Senator McDONALD: Is it not in your interest to see that your retailer gets the best possible grade of meat for the least money that he can get it for?

Mr. FISCHER: We are performing this service now.

Senator McDONALD: Yet, you do not buy any pork in the United States.

Mr. FISCHER: No, other than any pork that comes through the major packers.

Senator McDONALD: I am told that bacon can be bought for 20 per cent less in the United States. I am talking about sides of bacon.

Mr. FISCHER: Yes.

Senator McDONALD: You can buy it imported for 20 per cent less than you can buy it in Canada.

Mr. B. LOEB: Except for one thing, senator, that we do not have the physical facilities for importing a perishable like bacon and distributing it in small quantities to our stores.

Senator McDONALD: You have no warehouse?

Mr. B. LOEB: That is right.

Senator McDONALD: If you were to buy American pork—

Mr. B. LOEB: It would have to come through our warehouse and we would have to distribute it to points 125 miles or 150 miles or more away, and by the time it got to those points it might be as high priced as Canadian bacon.

Senator McDONALD: But my statement is true that, if you were going to supply it to your retailers, it would have to be through a Canadian packing or slaughtering house?

Mr. B. LOEB: That is right.

Senator McDONALD: There have been a series of questions concerning the price of fresh meat.

Mr. FISCHER: Yes, sir.

Senator McDONALD: And the relationship between the price that was paid to the producer and the price that is charged by the wholesaler, and there does not seem to be any parallel between the price to the producer and the price to the retailer. In other words, if the price to the producer goes up it does not necessarily mean that the price to the retailer goes up.

By the same token, if it goes down, it does not seem to make any difference. There is no relationship between the two. Why is there not?

Mr. FISCHER: What question do you want me to answer? Why does a farmer get 28 cents a pound for the live steer, and what happens after that?

Senator McDONALD: No. Tell me this: If he gets 28 cents a pound for the live steer, and the retail price from the packing plant is 50 cents—

Mr. FISCHER: Right.

Senator McDONALD: Then, if the beef goes down to 24 cents to the farmer why does the price remain at 50 cents to the retailer?

Mr. FISCHER: I do not think it does, sir.

Senator McDONALD: Well, the evidence that has been presented to this committee indicates that it does.

Mr. FISCHER: We follow the markets pretty well daily, and we are pretty well versed on market conditions right across the country. I think perhaps we have an advantage here for the simple reason that we get this market information based on livestock market conditions at various points across Canada. If a carcass of beef or an animal goes down half a dollar or half a cent a pound, we immediately look for a lower price, and I would say that in 90 per cent of the cases we get it. Not perhaps that particular day, but this reflects on the market in the following week.

Senator McDONALD: You are telling me, then, that the figures that have been given to us by previous witnesses are not correct.

Mr. FISCHER: I do not disagree; I did not hear the testimony.

Senator McDONALD: Testimony has been presented to us indicating that, for choice steers on the Toronto market last June, the average price was about 27 cents, dropping to 25 cents in July. Yet the price of beef by the side during the same period increased. It did not decrease but increased a cent and a half per pound, and for hind quarters it increased 4 cents a pound.

Mr. FISCHER: You are talking about the month of July?

Senator McDONALD: June and July.

Mr. FISCHER: June and July. There is a differential that is created by supply and demand during those hot months, particularly on the hind quarter. We have experienced this over many years, ever since I have been in the meat business, which is practically all my life. There is a demand for steak in the summertime because a woman does not particularly want a big roast of beef which will heat up the house, and that sort of thing. What happens is that the hind quarters might go up four cents a pound but the front quarters will drop.

Senator McDONALD: Just a moment, till I see if I have the figures for front quarters. I do not have the price on front quarters, but I do have the prices on cuts of meat from both front and hind quarters, and the prices indicate that both went up. Prices indicate that the cheaper cuts did not go down. As a matter of fact, they increased more than the high priced meat.

Mr. FISCHER: In all my years of experience I do not think that I can truthfully say that this is true, for the simple reason that the front quarter meat does go down in price in the summertime. It is quite evident by our advertising program, if anybody follows it, that cuts of beef which primarily sell at 39-40 cents a pound in the summertime go up to about 49 cents a pound in the wintertime, whereas the price of steaks comes down to offset that.

Senator McDONALD: Well, would you say that hamburg, rolled brisked and stewing beef were cheap cuts?

Mr. FISCHER: I would say that with brisket it all depends on what you are going to use the brisket for. It becomes a summer commodity owing to the fact that it is cured and probably smoked, and there is a lot more smoked meat used in the summertime for sandwiches, and things of that nature, so that there could be a demand on that particular cut.

Senator McDONALD: What would you call a cheap cut, then?

Mr. FISCHER: Rib boiling beef, stewing beef, boneless stewing beef.

Senator McDONALD: During this period that we have been talking about, stewing beef remained at 79 cents throughout the entire period.

Mr. FISCHER: That could be evidence submitted by a chain store, but, in all our years of experience, stewing beef as a rule has gone down as much as ten or twelve cents a pound during the summer months, or, if it is nice and lean, it is

converted into boneless chuck, minced chuck, which again becomes a summer item for barbecuing and that type of thing.

Senator McDONALD: Your prices at the retail level and at the wholesale level follow as closely as possible the price paid to the producer? If the price to the producer goes up the price to the retailer goes up?

Mr. B. LOEB: Right.

Senator McDONALD: Can you supply the committee with a list of prices that you have paid for sides of beef and hind and front quarters and for cuts of pork for the years 1965 and 1966? Is that possible?

Mr. B. LOEB: We have some information here, but we will provide it in its entirety to the committee.

Co-Chairman Senator CROLL: I have Mr. Whelan.

Mr. WHELAN: I want to make one comment. First of all on the brief—it has a bill of sale for independent grocers who are not any more independent than the members of a political party in the House of Commons. I am disappointed in the brief. I want to make that comment first of all. I hope through your good offices that every question is submitted to these people that was submitted to the other people who presented briefs to the committee and who are in the same line of business as these people here. They handle the same lines of goods, and regardless of what has been said and the submitted information, I hope we will delve into this as much as we should.

What line of produce do you handle that makes your highest profit—fresh produce, or canned products?

Mr. B. LOEB: When you use the word "produce" I think you are generalizing.

Mr. WHELAN: Well, what line of merchandise then?

Mr. B. LOEB: What line do we realize the highest margin on?

Mr. WHELAN: Yes.

Mr. B. LOEB: I could not answer that at this point without doing an investigation. Are you talking about a family grouping?

Mr. WHELAN: The other people who were here were able to tell us right offhand, and it was more or less in their briefs, which one they would make the highest mark-up on. Most of them said it was the produce division, fruits and vegetables and things of that nature.

Mr. B. LOEB: We are operating an entirely different type of business to the corporate chains, and therefore it does not render itself to comparison. The fact that we achieve the same end result has no bearing on it. This brief was by way of enlightenment for people who do not recognize that these are independently owned stores. Contrary to the statement that they are no more independent than members of Parliament, I would say that the man who is independent is the man who has money in his pocket. They were never better off than they are now, because if it were run for the benefit of the company only, they would not be in business. This is because of the fact that in Canada and the United States the chains dominate the market by doing 75 to 80 per cent of the total business. This is a very dangerous situation, and the type of program we offer our retailers enables them to remain competitive and profitable, and this is a decided advantage to the consumer in keeping the volume of business properly balanced. I would defy anyone to state that our retailers are under any domination.

Mr. WHELAN: You said that yourself—one of your officials said you reprimand them, and you said that you talk kindly to them.

Mr. B. LOEB: Have you never been reprimanded? We all need discipline. I think at times they have to be reprimanded for failing to adhere to company policy.

Mr. WHELAN: Anyone I am solely independent of had better not reprimand me for something that is not their business.

Mr. B. LOEB: The retailers are not dependent upon us; they have freedom of choice.

Mr. WHELAN: I am disappointed you do not know what line of produce makes your greatest profit.

Mr. B. LOEB: This question is still a little difficult for me to answer until I know what categories you are referring to. Are you referring to health and beauty aids as a category, to confectionery, to tobacco products, canned fruits—we don't handle meat—frozen food?

Mr. WHELAN: Yes.

Mr. B. LOEB: The category we make most profit on is health and beauty aids.

Mr. WHELAN: And then?

Mr. B. LOEB: And then confectionery.

Mr. WHELAN: And what comes third?

Mr. B. LOEB: What we call non-food items—variety wares and so on. The items we make least on are meat and fresh produce.

M. WHELAN: Do you recommend to your retailers the prices they should charge in various areas according to the earning power in the area and the wage scales?

Mr. B. LOEB: We do not in any way relate the prices we charge to wage scales. We set the price according to what the retailer needs to realize a reasonable profit and, secondly, it is based on competition in a given market.

Mr. WHELAN: Why is it always when fresh produce—and this is according to statistics given to myself that prove without a word of doubt that when the lowest price possible is paid to the producer the consumer is not given the benefit of this low market price?

Mr. B. LOEB: I shall have to ask Mr. Kerns to answer that.

Mr. KERNS: I don't know that this statement is fact. We relate our pricing at the wholesale and retail level to what we believe is reasonable in the merchandising and production area.

Mr. WHELAN: We have statistics given to us to show that those items—take cucumbers, for example—that when they are at their lowest price, this is when the outlet makes its highest markup, even 800 per cent. These figures are prepared by an independent body.

Mr. KERNS: It must have been a composite or average figure.

Mr. WHELAN: Are you trying to tell me you did not make an unwarranted markup on potatoes during July and August?

Mr. KERNS: All I can say is that we made our normal markup. We do not take excessive profits from the retailers or from the consumers. We have a normal approach to pricing which does not deviate. We have to maintain this to keep us in the position of leadership. We do not try to anticipate what others will do; we pay the best price we can—the cheapest, I should say—for good merchandise. We mark up legitimately for wholesale, and we recommend reasonable prices to the retailer whether we are in competition or fall short. If we find that our buyers are not sharp enough or if we buy too high a quality of goods, we adjust to meet the competition.

Mr. WHELAN: After what you said before I did not think you could buy too high a quality.

Mr. KERNS: We do, and this is when we find that we are outpriced.

Mr. WHELAN: If you purchase an imported product at a very high price and find you have to bear a loss, how can you make up for this?

Mr. KERNS: Depending upon the circumstances you will adjust your prices up or down.

Mr. WHELAN: If you pay a high price for importing, say, potatoes or something like that and you find it to be an unwarranted price, and if you put that price on—an unrealistic price—and the consumer does not buy—will you market it at a loss or will you make up the price on local, cheaper products?

Mr. KERNS: I am not sure if I understand you, but let us take the case of, for example, potatoes. In this instance we cannot compare Leamington potatoes with imported potatoes. The Leamington potatoes last year were in a wet, feathered condition that would defy any real inspection although they passed Canadian inspection. They don't compare with the quality of the long, white, or the Virginia or South Carolina potatoes, because those potatoes were well matured and generally clean, with a good skin, and easy to work with in the kitchen. It was a premium quality produce for the housewife. Compare that with a mass of dirty, feathered skin, where we have to cut off the mud, and there is every description of potatoes in the bag, all coming out of Leamington, not only because of the grading situation this year but because they had weather conditions during the harvest which created many problems where it was difficult to get the wet sand off the potatoes.

Mr. WHELAN: I am talking in generalities. You are talking specifically, about potatoes.

Mr. KERNS: I will mention another example.

Mr. WHELAN: When I was in Prince Edward Island they certainly did not get a very high price for their potatoes this year, and the consumer certainly did not pay that much less for potatoes compared with last year. I readily agree they paid less, but not in comparison with what the primary producer received for the product.

Mr. KERNS: I must qualify that; I cannot agree with your statement. The P.E.I. producer got one of the highest markets they have ever had this year.

Mr. WHELAN: Last year I know they had in potatoes, and in 1965 they received the highest price they ever had.

Mr. KERNS: In the winter and spring of 1966 P.E.I. and N.B. got the highest price that they ever received.

Mr. WHELAN: They are receiving 80 cents a barrel this year.

Mr. KERNS: This year they have some co-operative association with the shippers. The potato market was up into the $5 and $6 a hundredweight level, which is pretty expensive potatoes.

Mr. WHELAN: What loss do you suffer on handling fresh produce?

Mr. KERNS: Anywhere from a half of 1 per cent to 1 per cent, and sometimes even more, sometimes even 2 per cent.

Mr. WHELAN: Do you know what the retailer would lose?

Mr. KERNS: Anywhere from 2 per cent to 8 per cent, depending on how good or how poor he might be in the handling of the produce, how good his turnover processes are and ordering control, and how good his retailing operation would be, with which we try to help him.

Mr. B. LOEB: Also depending on whether there is a boycott or not.

Mr. WHELAN: I realize that. I am not satisfied we are getting the same quality as are American customers. On transportation, is it not true that a carload of lettuce in Detroit, if it is not opened and it is still in transit, can be shipped on to, say, London, without any extra cost?

Mr. KERNS: No, that is not correct. The dump duty laws in Canada prohibit the transfer of any product wherever it may be—

Mr. WHELAN: Is that 12 months a year?

Mr. KERNS: That is 12 months a year, with certain exceptions. Under 2,000 pounds of product can be brought across from Detroit into Canada with the restriction being placed on it that no one product can represent more than one-third of the total shipment. That is impossible for one carload.

Mr. B. LOEB: On the question of quality of produce, I will challenge your statement that the quality of produce sold in Canada is inferior to that sold in the United States. I could go into detail, but I would summarize it by stating that if the quality of produce sold in Canada is inferior to that sold in the United States, how come our percentage of sales of all chains in Canada on fresh produce is higher than that in the United States?

Mr. WHELAN: I probably think that is because when the Canadian primary producer produces their product this offsets the low quality product you bring in from the United States.

Mr. B. LOEB: No.

Mr. WHELAN: I bought produce in your store in Windsor, head lettuce wrapped with elastic and plastic to hold it together. I am not saying this is as bad as Mr. Kerns tried to point out about potatoes, but if this were high quality produce it was off-season produce put in a package and wrapped with an elastic to make it look like a head of lettuce. It was certainly not high quality.

Co-Chairman Senator CROLL: Let us get on. Mr. Horner?

Mr. HORNER (*Acadia*): You said that in your industry you carry out a normal approach to pricing and seldom do you divert from this. Could you give the committee an idea of what is involved in your normal approach to pricing? How do you take your mark-up and suggest the retailer take his?

Mr. KERNS: As I indicated before, we recommend 25 per cent gross profit for the retailer. We project profits in that direction so that he can achieve a 25 per cent gross profit on sales. I mentioned that earlier in the conversation.

In regard to the wholesale operation, we project a profit on our wholesale sales, less whatever advertised specials we put out, which may depress it. If we aim to have 13 per cent, our advertised specials may depress the profit by 1 or 2 per cent. We attempt to have attractive and stimulating advertising for our consumers. If peaches are topical, we want to be competitive with chain stores or any other retailers in the price of peaches. If California strawberries are topical, we want to be the leader in the approach to advertising and the merchandising of this produce.

Mr. HORNER (*Acadia*): We have seen in stores where they have changed the mark-up from time to time. Why and how do you arrive at a position where the price of a given commodity has to be increased? How do you arrive at that decision?

Mr. KERNS: When our cost from the primary producer rises, we have to pass this along, in turn, to our customer, the IGA store, and we recommend the appropriate price be passed along at the retail level. There is the law of supply and demand; when prices go up or down we reflect both instances.

Mr. HORNER (*Acadia*): You say that in all cases before you suggest a mark-up to the retailer, the producer of the primary goods—whether it be manufactured pork and beans or whether it be vegetables from Essex county—the price has gone up to you?

Mr. KERNS: In every instance I know of, the price has gone up to us prior to our raising the price to the consumer or retailer, as far as we are concerned.

Mr. HORNER (*Acadia*): And never do you recommend to the retailer a higher price because your competitors are moving goods rapidly at a higher price or the market will bear a higher price?

Mr. KERNS: On the contrary, I indicated earlier we do not follow competition in arriving at the price for fresh fruit and vegetables—and I am speaking now only of fresh fruit and vegetables. We arrive at a selling price based on our cost. If we find we may have bought imprudently or paid a price for quality higher than others might have paid and paid, say, a cent higher, we might reduce it by a cent, but it does not go up.

Mr. HORNER (*Acadia*): In your arrangements with independent grocers, do they follow your suggested price list fairly closely?

Mr. KERNS: I would say that as a general rule they do, because they have found this has been generally a competitive situation.

Mr. HORNER (*Acadia*): It is a good guide, and they follow it very closely?

Mr. KERNS: Yes.

Mr. HORNER (*Acadia*): But in the odd case they would increase their price because they see their competitor has, and they would not be reprimanded by you?

Mr. KERNS: They certainly would not be recommended—

Mr. HORNER (*Acadia*): No, "reprimanded".

Mr. KERNS: Reprimanded for doing it? If we knew about it we probably would reprimand them, but we have a large number of stores in a large geographical area, and we do not have a large enough number of supervisors to pick up this differential. We do not encourage it and do not like it.

Mr. HORNER (*Acadia*): Consumers go into stores—and I expect they go into IGA stores—and see in relatively rapid succession mark-ups in the price of a commodity. Maybe three or four times a commodity is marked up in three or four weeks.

Mr. KERNS: This originates from the primary producer. We had a case last summer of lettuce, where the lettuce market started at $1.50 or $1.25—

Mr. B. LOEB: I would like to interrupt. I think you are talking about dry grocery commodities, where the price has gone up, and Mr. Kerns is trying to reply in terms of perishables; and these are quite different commodities and cannot be discussed at the same time. If you are referring to increases in the cost of what we call dry groceries or hard goods, this is a problem we are confronted with, continually rising prices, and we will send our retailers a revised selling price based on the increased cost of the merchandise.

This also applies when certain items come down in price, such as sugar. It is necessary to reduce the price from time to time. The problem is if a retailer has five cans left on his shelf and a new price list comes in and a new shipment comes in, then the chances are he will raise the price on the five remaining cans to the level of the new suggested price, in order to have one price on his shelf and to not confuse the cashiers. This is a problem that we are concerned with in rising markets, and it is left to the discretion and integrity of our retailers. Unfortunately, in any situation some take advantage of it. We try to the best of our ability to impress upon the retailer the importance of not taking advantage of the consumer, but here again you are pleading with him; you cannot force him.

Senator CARTER: I have two questions. I would like to continue the line of questioning of Mr. Horner. Now, Mr. Loeb, you have a large distributing centre for the Ottawa Valley area?

Mr. B. LOEB: Right.

Senator CARTER: Would you be faced with a problem similar to that which you have just described for the retailer in respect of your inventory? How often do you turn over your goods?

Mr. B. LOEB: Our merchandise is turned over 24 times a year—roughly every two weeks.

Senator CARTER: So you could conceivably be faced with the same problem? In other words, prices would go up and you would still have goods brought in at the old price. What is your policy with respect to that?

Mr. B. LOEB: As long as we have merchandise on the floor we will ship it out at the price prevailing at the time of shipment. When a new price comes in it has got to be programmed into the computer, and since our merchandise turns over so quickly we really do not have old merchandise left over. We buy for turn-over and not for profit.

For instance, in respect of a commodity like sugar, we get a truckload of sugar in every day of the week, and sometimes twice a day. Other commodities we buy weekly. So, there is very little merchandise left on hand. The retailer bases his selling price on the price he pays for a particular commodity.

Senator CARTER: But you have to face the same situation as the retailer, in that you have to merge the two prices into one.

Mr. B. LOEB: Yes, and we have to take the price prevailing at the time of shipment.

Senator CARTER: In other words, whatever you have on the shelf goes up to the next price?

Mr. B. LOEB: If we have 25 cases on the shelf and a new price comes in on a new shipment then we have to balance those two prices. It is impossible to sell old stock at the old price, and the new stock at the new price. You would have to have hordes of clerks to keep the accounting intact.

Senator CARTER: And what if the price goes down?

Mr. B. LOEB: We have to reduce the price in order to remain competitive.

Senator CARTER: I would like to come back to the private labels. Do you have the same brand of private label merchandise for all IGA stores?

Mr. B. LOEB: Yes.

Senator CARTER: Do you promote these?

Mr. B. LOEB: Very intensively.

Senator CARTER: Do you have lab. tests?

Mr. B. LOEB: Yes, all of our merchandise is tested in a private laboratory in Brantford, Ontario.

Senator CARTER: So, you are satisfied—

Mr. B. LOEB: We are satisfied that the quality must be equal to that of the particular commodity group. For instance, fruits and vegetables are graded as standard, choice and fancy. These are government standards. But, our quality must be equal to the quality of a comparatively priced commodity from any other manufacturer.

Co-Chairman Senator CROLL: I understood you to say earlier that the manufacturer who makes the national brands makes your private brands, and you sell the private brand cheaper than he sells the national brand?

Mr. B. LOEB: That is correct.

Co-Chairman Senator CROLL: It is exactly the same product. It is exactly the same product from the same manufacturer.

Mr. B. LOEB: Primarily, the research is done to compare the brands of two or three manufacturers who may want to submit samples of their products. We

have them researched in order to make sure that the quality submitted is satisfactory.

Senator CARTER: I want just to finish that. In the case of commodities like coffee, and so on, you are satisfied that your private label brand is comparable in quality to—

Mr. B. LOEB: Yes, we are satisfied. We just hope that the consumer is satisfied.

Senator CARTER: You are promoting it, you said?

Mr. B. LOEB: Yes.

Senator CARTER: By advertising?

M. B. LOEB: Yes.

Senator CARTER: In any other way?

Mr. B. LOEB: By lower prices.

Senator CARTER: Lower prices?

Mr. B. LOEB: Yes.

Senator CARTER: Can you tell the committee what percentage the sales of your private label brands constitute of your total sales?

Mr. B. LOEB: In the category involved our private labels are 10 per cent of the total sales.

Senator CARTER: And is that increasing?

Mr. B. LOEB: It is increasing. It was about five per cent about three years ago, and it is now about ten per cent. We are constantly attempting to develop the sale of private label merchandise.

Mr. URIE: I have just one or two questions. In your financial statement you make reference to the introduction of the Cartier variety program. What is that?

Mr. B. LOEB: Those are the Loeb City products that I referred to earlier—the franchising of Variety stores.

Mr. URIE: I see, and the sales of those are not included in these?

Mr. B. LOEB: Yes, this is the consolidated sales.

Mr. URIE: I am sorry; I did not realize that. I have just one further question. You perform a vastly greater variety of services for your retailers than the ordinary wholesaler. As I understand from what you said, there is advertising, accounting, guarantees, leasing, and all that type of thing. Do you perform more services for one retailer than for another?

Mr. B. LOEB: No, they are available to all retailers, and we perform whatever we are called upon to perform.

Mr. URIE: Now, do you charge anything for those services, over and above the price of the merchandise?

Mr. B. LOEB: No—well, in my brief I mention that we charge the retailers a service fee for their merchandise, which includes all the other services they get—that is, other than retail accounting, which is charged them at exactly your cost.

Mr. URIE: Is the retail accounting fee included in your $200 million of sales, or is that separate?

Mr. B. LOEB: Well, it is a service. There is no income from it. We just maintain a retail accounting office on behalf of the retailers, and whatever it costs us to maintain that office is charged out to the retailers—

Mr. URIE: There is no element of profit in it at all?

Mr. B. LOEB: No.

Mr. GREIG: There is a loss incurred in that operation.

Mr. URIE: So far as the other services are concerned, any element of cost involved in them is added to the price of the goods?

Mr. B. LOEB: It is included in the price—it is not added.

Mr. JOYAL: I have just one point. Your arrangements are such that I am somewhat confused as to whether there is duplication, especially in the promotional or advertising field. The evidence that has been adduced before this committee by the chain store operators indicates an average of 1.6 to 1.8 per cent of sales for advertising and promotion. Now, your statement shows a figure of 1.27 per cent of sales for your advertising.

Mr. B. LOEB: Not our advertising—advertising on behalf of the retailers.

Mr. JOYAL: But you also show in your operating guide to the retailers an advertising cost of 0.4 per cent, and a Gold Bond stamp cost of 1.75 per cent. How do you break down these three figures? In other words do you do all the advertising for your retailers?

Mr. B. LOEB: Yes, we do all the advertising on behalf of our retailers, and we charge the retailers a percentage of their sales as an advertising fee, and we subsidize the balance of the total advertising from our own company profits.

Mr. JOYAL: Therefore, what would be the total amount of your advertising as against the net amount of your advertising?

Mr. B. LOEB: When you say "your" are you talking about wholesale or retail?

Mr. JOYAL: I am talking about the M. Loeb Limited level.

Mr. B. LOEB: The advertising was 1.2 per cent last year.

Mr. JOYAL: Is that a gross figure or a net figure?

Mr. B. LOEB: It is a percentage of our total sales. The dollar expenditure was about $2,305,000. That was the total amount we expended for advertising on behalf of our retailers through television, radio, handbills and the newspapers, and so on. That was spent on behalf of the retailers. The retailers contributed a portion of that cost, and the rest was made up by our supply depot.

Mr. JOYAL: Therefore, the amount of $2,305,000 for advertising and promotional expense is the net cost to you?

Mr. B. LOEB: Right—the net cost to us, but contributed in a large portion by franchised retailers, based on their volume.

Mr. JOYAL: What is involved in this?

Mr. B. LOEB: Advertising in newspapers, on the radio and television, by handbills and window posters, or any other type of promotion which we, together with the retailers, deem essential in order to maintain an adequate image for them in a market area.

Mr. JOYAL: "I Give Away", and that sort of thing?

Mr. B. LOEB: Yes, sir.

Mr. JOYAL: Have you a breakdown of all these distributive costs?

Mr. B. LOEB: Yes, sir.

Mr. JOYAL: Could this be provided to us?

Mr. B. LOEB: Yes.

Mr. URIE: I have a supplementary question. How much of that $2,305,000 was paid to you in dollars by the retailers?

Mr. B. LOEB: I would have to do a little research on that. It varies according to the retailers. I could provide that information, but I do not just have it handy. I would be happy to give it to you.

Mr. URIE: I have one further question. Does that figure represent the net amount to you after taking into account the payments made to you by your suppliers for advertising?

Mr. B. LOEB: That is the gross amount that we have paid to the various advertising media for the advertising done on behalf of our retailers. A portion of it came from retailers, a portion of it came from us, and a portion from manufacturers.

Mr. JOYAL: That is what I want. Give us the portion from manufacturers—a breakdown of all three.

Co-Chairman Senator CROLL: While you are at it, will you obtain for us a figure to indicate the cost of the premiums and gimmicks to the retailer, or whatever he gives out, on a weekly basis?

Mr. B. LOEB: He doesn't give anything out; it is given out on his behalf.

Co-Chairman Senator CROLL: Very well, on his behalf, on a weekly basis.

Mr. B. LOEB: All right.

Mr. JOYAL: Is that not disclosed in your little handy document called "A Guideline to Retailers on Costs per $1000 worth of Sales"? I believe you filed this?

Mr. B. LOEB: What is the date?

Mr. JOYAL: There is no date on it, unfortunately.

Co-Chairman Senator CROLL: I have not seen it, where does it come from?

Mr. B. LOEB: Probably from our retail operations manual. It is available.

Mr. JOYAL: But your suggestion as far as the retailer is concerned is that he can charge off .4 per cent for advertising.

Mr. B. LOEB: That is an old one, long before the current one. That is not according to the current rates for newspaper advertising, it is several years old.

Co-Chairman Senator CROLL: Then how could it have reached us? We asked you to provide us with up-to-date information.

Mr. B. LOEB: I did not provide that.

Co-Chairman Senator CROLL: Where did it come from?

Mr. JOYAL: I don't know.

Mr. B. LOEB: That was not provided by our company. It must have come from an old retailer who keeps the old documents.

Co-Chairman Mr. BASFORD: Can we have an up-to-date one?

Co-Chairman Senator CROLL: Are they published by the thousand- or the ten thousand-volume?

Mr. B. LOEB: It really doesn't make any difference, we will give you a current one.

Co-Chairman Senator CROLL: And date it, please.

Mr. WHALEN: I have one question which requires an answer and was not fully answered before. If an independent retailer wants to buy from a local primary producer some produce, or from a local processor, you said that he can do that, and yet you still apply two per cent to them. Is that just right?

Mr. B. LOEB: You mean buy and have it shipped through us?

Mr. WHALEN: No, I mean if he wanted to buy from me and have nothing to do with you—to be independent?

Mr. B. LOEB: He can buy directly from you.

Mr. WHALEN: Does he have to pay you anything for that?

Mr. B. LOEB: No.

Mr. WHALEN: Then what about the two per cent?

Mr. B. LOEB: That is on an unauthorized supplier. We charge him a fee of approximately two per cent for billing and all the administrative aspect of it and for the terms we would give him, and so on.

Mr. WHALEN: But there is nothing to stop your retailers, your independents, from buying from a local processor?

Mr. B. LOEB: Nothing.

Co-Chairman Senator CROLL: Has anyone further questions? Thank you very much, Mr. Loeb. This of course is in a preliminary way. We had not seen your brief before and have had no opportunity to examine the answers to the questions which you gave very well. You were very open with the information, which we appreciate greatly. After we have had an opportunity to study this we shall of course call you back. We asked you to furnish a certain amount of information, and perhaps you will geet that to us as soon as possible.

Mr. B. LOEB: Before closing, I should like to extend an invitation to all members of the committee to visit our distribution centre, which is just five minutes from here, where they can see personally the nature of our operations to have a better understanding of the importance of wholesaling and distribution in the marketing season. Thank you very much.

Whereupon the committee adjourned.

EXHIBIT "A"

M. LOEB LIMITED

Trends in Operating Costs and Expenses

(1) *Sales and gross profits*

	1965–66	1964–65	1963–64	1962–63	1961–62
Sales	$200,102,378	$172,055,271	$140,396,914	$102,572,754	$ 81,648,563
Gross profit	13,274,968	11,357,150	9,461,207	6,598,549	5,497,956
Gross profit as % of sales	6.63	6.56	6.74	6.43	6.73

(2) *Cost of merchandise*—groceries

	1965–66	1964–65	1963–64	1962–63
Average cost per case	$5.68	$5.57	$5.52	$5.49

(3) *Salaries and wages*

Average hourly rates of warehouse employees:	1965–66	1964–65	1963–64	1962–63	1961–62
Pickers	$1.89	$1.71	$1.60	$1.58	$1.32
Checkers	2.01	1.91	1.65	1.55	1.32
Loaders	1.92	1.83	1.58	1.52	1.32
Fork-lift operators	1.89	1.79	1.66	1.60	1.34
Drivers' wages per mile (1966-67—8½¢) (Southwestern Ontario)	7¾¢	7¢	7¢	6¢	6¢

(4) *Fringe benefits*—grocery warehousemen
Average Company cost per employee has doubled since 1960, from $69.68 in 1960 to $138.57 in 1966.

(5) *Advertising costs*

	1965–66	1964–65	1963–64
Expenditures	$2,305,482	$1,797,065	$1,030,332
Cost as % of sales	1.27	1.15	1.06

(6) *Freight transport rates*

(*a*) Truck load rates have increased by an average of 2.05% per year for a total of 10.25% over the past five years.

(*b*) Rates for less than truck load quantities have increased by an average of 4.20% per year for a total of 21.00% over the past five years.

Upon resuming at 3 p.m.

Co-Chairman Senator CROLL: I see a quorum. We have a submission today by Western Grocers Limited. Mr. E. S. Cooper, the President, will read the brief.

Mr. E. S. Cooper, President, Western Grocers Limited: Mr. Chairman, I am very pleased to appear here and tell you something of the structure and operations of our company. I was asked to report to you on the operations of Western Grocers Limited. I would like to introduce my colleague, Mr. Keith Campbell, also a director of Western Grocers Limited. He is my supporting team.

I must apologize and ask your indulgence because I am unable to pass any French language copies to the members. We were under a good deal of pressure of time and only completed our submission after working hours last night.

I would like to read through the brief in its entirety, with your permission. I think it is worded as concisely as we could.

This memorandum is under two headings:

1. Brief outline of food wholesaling activities of Western Grocers Ltd. and pertinent operating figures years 1960 to 1965 inclusive, as requested.
2. General comment on food prices and trends.

This company operates in the territories from Fort William out to the Alberta-British Columbia border, supplying dry groceries and a service in fresh produce and meats through 14 branches and 10 cash and carry depots. The head office is in Winnipeg.

From its early operations as a leading "old line" salesman-oriented business in dry groceries, there has been growth and modernization until today the major part of the company's wholesale distribution is through voluntary "group stores" (Tom-Boy, Red & White, Lucky Dollar, and United Purity stores), and to a less extent in corporate retail food outlets and institutions.

Western Grocers was one of the early sponsors of "group store" activities in Canada, introducing and expanding services which have been essential to the progress of the independent food merchant in his competition with corporate chain activities. I am glad that Mr. Bert Loeb was able to give you such a fine exposition of the voluntary group store philosophy, in this morning's session.

Such services to the independent "group store" owner embrace the advantages of mass buying at low prices, guidance by experienced field representatives, centralized advertising and promotion activities, centralized accounting, store location, design, fixture purchases, training programs, and often substantial financial assistance.

The "group store" concept of co-operation between wholesaler and retailer also has developed important operating economies and is constantly innovating new practices to this end.

Substantial investments in modern warehouses, in mechanized handling equipment, in punched card office machines, scheduling of orders and deliveries, concentration of purchases by retailer, prompt payment of accounts, and many minor refinements of procedures have resulted in steady reductions in the cost of doing business per ton at wholesale during the last 15 years. Western Grocers has been one of the leading wholesale organizations to originate and develop such efficiencies in the handling of dry groceries and perishables.

It should also be noted that such economies have not been possible in some of the more remote rural and northern areas, where the older style of personalized service is still required, albeit at greater expense than in the more populous centres.

The attached Exhibit "A" lists the pertinent figures in Western Grocers' operations, years 1960 to 1965 inclusive, under heading of total sales, percentage of margin, percentage of grocery sales only, percentage of perishables sales only, wages, percentage of sales, advertising-net, percentage of sales, and net profit-percentage of sales.

(*See Exhibit "A" following this text.*)

It may be noted that, despite increased wage rates, Western Grocers' total wage bill has declined in dollars and in ratio to sales. Wage costs are over half of the total expense of the business.

Net profits of Western Grocers Limited are under one per cent of sales after provision for all taxes. It is a thin line between black and red ink.

WESTERN GROCERS LTD. IS A SUBSIDIARY OF WESTFAIR FOODS LTD.:

As a wholly-owned subsidiary of Westfair Foods Ltd., Western Grocers' accounts are consolidated with other operating subsidiaries in the annual Westfair Foods Ltd. statement to shareholders, which is the only statement we issue to the public.

Westfair Profit and Dividents	1965	1964	1963	1962	1961	1960
% of Sales	1.13	1.06	.98	.92	.91	1.08
Return on Invest. % ..	6.48	6.38	6.10	6.16	6.36	8.29
Dividends—						
% of Sales	.16	.16	.17	.16	.16	.16
% of Investment ..	.92	.97	1.03	1.09	1.14	1.21

I quote Westfair figures here because we do not have these figures analysed and broken down separately for Western Grocers Ltd.

Trend in cost of merchandise handled by Western Grocers Ltd.:

Dry groceries, average cost per ton	1966	$532.00
	1965	520.00
	1964	490.00
	1963	492.00
	1962	498.00
Cost per ton, fresh fruits & vegetables	1966	$211.00
	1965	227.00
	1964	220.00
	1963	216.00
	1962	221.00

The frequency in number of price advances coming through on dry groceries now indicates a further advance in wholesale costs of dry groceries—I think that cannot be doubted—but average cost of fresh fruits and vegetables handled by our wholesale produce departments has shown a consistently stable pattern. Fresh produce has held relatively at bargain prices, and this may well continue.

Average weekly wage cost per employee:	1966	$90.98
	1965	88.63
	1964	88.01
	1963	84.86
	1962	82.67
	1961	80.36
	1960	79.38

PRIVATE LABEL MERCHANDISING:

For many years Western Grocers Ltd. had distributed a good range—some 400 items—of "controlled" or "private label" merchandise, and is giving increased emphasis to this field.

We believe the essential requirements of successful private label merchandising to be:

(a) quality at least equal to comparable nationally advertised brand goods. This we endeavour to maintain without exception. I would like to emphasize that whole point because we will not have anything to do with a product if it is not equal to similar products nationally advertised. That is our first consideration. Then,

(b) appreciably better value to the housewife; i.e., the consumer to receive better quality for equal price, or equal quality at a saving, as compared with nationally advertised brands.

The benefits of private brands are:

1. Customer loyalty to our retail outlet by offering attractively priced goods as compared to nationally advertised labels.

2. Customer loyalty and profit for wholesaler.

The proportion of our private label dry groceries to total turnover of dry groceries is estimated at 7.29 per cent.

DETERMINATION OF SALES PRICES:

We have been asked how we determine our sales prices on dry groceries. I think Mr. Loeb explained the meaning of cost-plus this morning, and we would take the same meaning that he used.

DRY GROCERIES:

The greater part of our volume is priced on a "cost-plus" fee basis. A comparatively minor part of our business is priced on "list prices", which are generally determined by competitive pressure. Let us say, as an instance, in The Pas branch and in another branch in Flin Flon more than half our volume in those particular branches is sold at what we call list price to non-retail outlets, fur trappers, fishermen, mining camps and so on. Our "cost plus" fee is determined on a schedule equitable for all customers and applying to all dry grocery products.

FRESH PRODUCE:

This is priced competitively according to the frequent fluctuations of supply and demand.

MEATS:

Meats are billed at cost, plus a buying service fee.

Usually our good customers are very willing to point out any of our prices that might be out of line with effective wholesale competition. We find that we have got pretty good communication on that.

Now, Mr. Chairman, would you like to pause for questions on the operations of the Western Grocers Ltd., or should I go on?

Co-Chairman Senator CROLL: No, just go through the brief.

Mr. COOPER: Very well. The second part of the presentation is entitled: "General Comment on Food Prices".

EFFECT OF WORLD TREND:

This is a rather inclusive comment: Increasing pressure on staple food supplies throughout the world is most likely to result in strengthening food prices in Canada, particularly on cereals and meats.

EXCHANGE AND TARIFF:

These are steady "built-in" factors in the cost of foods imported into Canada, and to this extent decrease the competitive factor in domestic foods.

WAGES:

Wage increases at farm level, at processing plant level, in transportation, and at warehouse and retail outlet, tend to push up costs at all levels of production and distribution.

EFFICIENCY:

Concentration into large units at primary and secondary levels, usually with increase of mechanization, tends to decrease costs.

In so far as wage increases exceed improvements in productive efficiency, the result is higher food costs.

Wage increases are not the only factor in price increases of food, but appear to be the principal cause. Hight interest rates, taxes and general costs of living and operating a business contribute to increases.

CONVENIENCE FOODS AND SERVICES:

The demand for time saving conveniences results in another factor of increase. Cost of production of the "convenience" elements in foods is an important factor in the spread of cost between product at farm level and at retail counter. Frozen foods in considerable variety, cake and bakery mixes, "instant" products, prepared and semi-prepared bakery and delicatessen products, et cetera, required extra labour.

Convenience foods do save time; they do serve a purpose. Many housewives work at full-time jobs, others have more outside activities. The average housewife spends fewer hours in the kitchen per day than even ten years ago. Much of this activity is helped by the availability of convenience foods. But it costs money. It is part of the cost of high living, if you like.

SERVICES

VARIETY:

The average household kitchen pantry and refrigerator contain less than 300 food items. Now, I say average. We made a little survey a little while ago and it varies quite a bit from household to household, but my recollection is that the low count was 176 items and the high count was just over 400 items per household. But the shopping public demands a variety of over 2,500 items in the neighborhood store and up to 6,000 items in the supermarket to choose from. Our wholesale branch in Winnipeg stores and services 4,900 grocery items.

As well, fresh fruits and vegetables are imported in large quantities throughout the entire year; e.g., oranges, bananas, grapefruit, lettuce, cauliflower, melons, watermelon, berries, et cetera. Not many years ago these were exotic fruits, if I can use that term, available only in certain seasons at high prices. Today they are accepted as staples, and more of these higher cost foods are sold.

QUALITY:

In virtually every food commodity, quality has steadily improved, in many cases markedly in the last ten years. But selective grading, extra processing, refrigeration, all cost money.

RUSH HOURS:

The general habit of weekend shopping causes the rush hour traffic of Friday and Saturday. Food markets must be built to accommodate the peak traffic. The same stores will be less than half busy for the first three days of the week.

NIGHT SHOPPING:

As well, the growing practice of night shopping is an expense incurred in response to public demand. It serves the purposes, however, of people who cannot go at any other time.

SAVINGS POSSIBLE:

Attached as Exhibit "B" may be seen a number of price comparisons of foods, indicating considerable cost differentials in different forms of the same commodity.

(*See Exhibit "B" following this text.*)

I would like to give as an instance the first item on here, potatoes. The lowest value is in just ordinary potatoes in the bag, a ten-pound bag. Then we come to instant mashed potatoes, 77 per cent higher than ordinary raw potatoes. Frozen French fried potatoes are 236 per cent higher. I may say that frozen French fried potatoes are shipped by the car lot into Winnipeg and into some other Western centres. Canned whole potatoes are 267 per cent higher, and so on. We have listed quite a number of items which were picked up and priced in supermarkets in Winnipeg.

As well, careful planning can utilize many fine nourishing foods which are naturally more economical than others. When I was married we lived on spaghetti and cheese for the first year and we paid for some furniture; the next year we lived on spaghetti and cheese and paid for a baby. People will find that there is a vast difference in the cost of nourishing foods today.

Generally, non-advertised house brands packed for reliable distributors offer appreciable savings.

Home economists offer much valuable information. More can be done, and should be done, through media in editorial and advertising space, to inform housewives of savings possible by smart shopping.

PROMOTIONAL DEVICES:

We have been asked what effect on the wholesaler have such devices as trading stamps, contests, weekly or seasonal food specials. Undoubtedly such promotional devices stimulate business at retail level, and to this extent produce more turnover at wholesale. Often these devices may be economically sound, such as a drive to increase business during the first part of the week when the retail store is comparatively quiet and its facilities only half used. Quite often promotional devices are overdone or are poorly conceived and fail to bring a response from the shopper. In such cases, of course, they are uneconomical. Neither blanket approval nor disapproval of bargains and promotional devices is either fair or realistic. The effect of specific means and occasions must be considered.

THE GOLDEN CORNUCOPIA:

Nowhere in the world outside of the United States and Canada are foods offered in such quality, in abundant year-round variety, in such convenient form, and in such good value, considering quality and service. Nowhere are quality and health standards better maintained, at small profit per unit and reasonable return on investment.

That is my submission, sir.

Co-Chairman Mr. BASFORD: About this item on the first page of your brief where you say that Western Grocers Ltd. runs Tom-Boy, Red & White, Lucky Dollar, and United Purity stores on the Prairies. Who runs those stores in British Columbia where they have the same names?

Mr. COOPER: The Red & White stores in British Columbia are run under the sponsorship of Kelly, Douglas & Company there, the Lucky Dollar and United Purity in British Columbia are operated under the sponsorship of W. H. Malkin Limited.

Co-Chairman Mr. BASFORD: Are they operated anywhere else but in those provinces?

Mr. COOPER: Red & White operate in Ontario, Quebec and the Maritimes also.

Co-Chairman Mr. BASFORD: Who are their sponsors there?

Mr. COOPER: National Grocers are the sponsors in Ontario, Denault in Quebec, and Atlantic Wholesalers in the Maritimes. Chern & Sons of Prince Edward Island have a few Red & White stores.

Co-Chairman Mr. BASFORD: What would be the difference in operation between Red & White stores run by you on the Prairies and those run by Kelly, Douglas in British Columbia?

Mr. COOPER: There is the name in common and certain promotions are held in common. This has been the practice right across Canada, but in general the direction and development is left to each sponsoring wholesaler in his own area.

Co-Chairman Mr. BASFORD: Who owns the name "Red & White"?

Mr. COOPER: The firm called Foodwide of Canada holds the legal right to the name in Canada and also does a brokerage business in Toronto and is owned jointly by the sponsoring wholesalers.

Co-Chairman Mr. BASFORD: The five companies you mention across Canada?

Mr. COOPER: Yes.

Co-Chairman Mr. BASFORD: Are all the sponsoring wholesalers owned by the same people?

Mr. COOPER: No, we are owned by Westfair Foods Ltd. which in turn is a wholly-owned subsidiary of George Weston Ltd. in Toronto.

Co-Chairman Mr. BASFORD: On page 4 of your brief you mention effective competition. Now, for British Columbia, which I know best, just where does the effective competition come from when through the whole complex of W. H. Malkin Limited, Shop-Easy Stores, Westfair Superfine Foods, and Dixon Importing and Kelly, Douglas—where is the effective competition?

Mr. COOPER: I can assure you there is lots of competition in British Columbia. We compete with Kelly, Douglas out there quite strenuously and we also have other wholesale competition, and I think it is reasonable to mention the dominant factor of competition in British Columbia from Safeway Stores and Woodward's, and rather severe competition at the retail level in British Columbia must work back to the wholesaler. They must accommodate their prices and their operating practices to that competition to protect their own outlets.

Co-Chairman Mr. BASFORD: Where is the efficiency in competition between you and Kelly, Douglas when you and they are owned by the same people?

Mr. COOPER: The efficiency lies in the fact that we have to scratch pretty hard to make a buck. We do not work hand in glove with them; we are competitors.

Co-Chairman Mr. BASFORD: Where is the efficiency from a shareholder's point of view if you have competition between these two groups?

Mr. COOPER: I don't think we are considering efficiency from the standpoint of the shareholder in our relations with Kelly, Douglas. We are two separate entities, separate managements, separate financing, and I don't think this enters into the question of efficient operating. We each do the best job we can, as does everybody out there, to run an efficient business because only by efficiency can we make any profit.

Co-Chairman Mr. BASFORD: Can you give an estimate of the percentage of the wholesaling business in western Canada—these four provinces—that George Weston Ltd. in one way or another owns or controls?

Mr. COOPER: I am sorry, I do not have those figures.

Co-Chairman Mr. BASFORD: Are the figures available?

Mr. COOPER: Not to my knowledge.

Co-Chairman Mr. BASFORD: And what percentage of the western market would you control, that is Westfair Foods Ltd.?

Mr. COOPER: Westfair Foods?

Co-Chairman Mr. BASFORD: Yes.

Mr. COOPER: I am only prepared to cite figures which I brought with me which concern Western Grocers Ltd.

Co-Chairman Mr. BASFORD: But you are also President of Westfair Foods?

Mr. COOPER: That is correct, yes. If I could answer your question in a general way, and as an estimate, I don't think there are any accurate figures available, but as an estimate I think we handle somewhat over 20 per cent of the warehouse traffic of western Canada. By that I mean we do not have anything like the total dollar volume of Safeway which is our large competitor because of their complex of retail stores and wholesale business, but comparing our wholesale with total sales I think our share would be something like 20 per cent.

Co-Chairman Mr. BASFORD: I will pass for the moment.

Co-Chairman Senator CROLL: I have Senator McGrand, Senator Carter and Mr. Joyal.

Senator MCGRAND: You mentioned the increase in the cost of wages, convenient foods and the necessity of carrying some 6,000 items in food stores and also the necessity to carry extra staff to look after the off-hour and night buying. Can you in a general way indicate what this does to increase the cost of food and how much in each case?

Mr. COOPER: No, sir, I cannot give you estimates of what the cost is in each of those factors, and I must make it clear that I am not posing as a retail expert—wholesaling is my business, and is our subject here—but I believe those are definite, appreciable factors, and I think they would be generally acknowledged by others in the trade.

Co-Chairman Senator CROLL: What are general factors? What factors are you referring to?

Mr. COOPER: The factors the doctor mentioned here.

Co-Chairman Senator CROLL: What were they again? Factors having to do with wages—

Mr. COOPER: Wages, variety, night shopping, rush hours.

Senator MCGRAND: Those are the three chief items in the increased cost of food.

Mr. COOPER: There are others. Interest on money is a big factor; large investments and consequent depreciation; but I think when we are speaking of

trends, the outstanding trend in the factors entering into the cost of food is the increase in wages.

Co-Chairman Senator CROLL: Mr. Cooper, you have repeated that two or three times, and you have said so in your brief. Would you mind turning to your statistics, please? If I read the statistics correctly, I would say that the wages, which are a percentage of sales, were higher in 1963, 1962, 1961 and 1960 than they were in 1965.

Mr. COOPER: That is correct, sir.

Co-Chairman Senator CROLL: Then how do you bear down so hard on wages?

Mr. COOPER: These figures apply to our Western Grocers' wholesale operation only. I do not say they increased our costs to our customers at wholesale, but as a general observation, and particularly at retail, I believe wages have caused this, and wages have a very particular impact, I think, in production and in the cost of goods up to the point where they arrive at our warehouse door.

Co-Chairman Senator CROLL: Mr. Cooper, you have the right to answer a question any way you like, of course, but these general observations become a little misleading, because the Deputy Minister of Finance, in speaking to us—and it is on the record here—indicates that as of the time that he gave us the report, which is less than a month ago, the working man had not taken a greater share of the pie this year than he had last year. The pie was bigger, but he had not taken a greater share of the pie, and neither had the farmer. In fact he look less. Those are the only two we are sure of. We are suspicious of some others, but we can get around to that later. You keep saying wages certainly do not affect you, but you say you suspect they affect somebody else. You are a little too general on that. No doubt they do, but we have to be specific to make these things stick.

Mr. SALTSMAN: A supplementary question?

Co-Chairman Senator CROLL: Give Mr. Cooper a little more time to think about these observations, if he has anything to say. Senator McGrand, I butted into your questioning. Are you finished?

Senator MCGRAND: Yes.

Mr. SALTSMAN: Just a short supplementary, Mr. Chairman. At the time Mr. Cooper says wages are rising, and it appears on his table of statistics they are actually decreasing, there is an item that is rising and that is called the percentage margin. That has been rising over the last three years and it is at its highest point in 1965. Does that margin rise affect costs?

Mr. COOPER: May I pinpoint it?

Mr. Saltsman: That is on the statistics.

Mr. COOPER: Yes. Well, actually, over the five-year period that is down. It is not a material change up or down, really, the percentage margin. But that is not particularly related to wages. Our wages are down slightly in dollars over the five-year period. You can see that under the wages line there. The per cent of sales has improved, but this is through using fewer people to move more tons of goods.

Mr. SALTSMAN: In that same period your volume has dropped and your profit has increased, is that correct?

Mr. COOPER: No, our volume has increased.

Mr. SALTSMAN: No, the volume from 1964, the total sales from 1964 to 65.

Co-Chairman Senator CROLL: Well, slightly.

Mr. SALTSMAN: There has been a slight drop, and your profits have increased.

Mr. Cooper: Well, they are almost exactly the same volume, and our per cent margin is slightly up, and I would say that is because—and I cannot say exactly, but I think there is a small increase in grocery sales in that time.

Mr. Saltsman: But your total sales have gone down in that time, and your margin before expenses have gone from $4,355,000 to $4,489,000 on smaller total sales, which is a rather nice thing to be able to do.

Co-Chairman Senator Croll: I have put your name at the bottom, after Mr. Leblanc, Mr. Saltsman. Senator Carter?

Senator Carter: Mr. Cooper, on page 2 you say that you have improved your operations so that there has been a steady reduction in the cost of doing business per ton during the last 15 years. Have you any figures you can give us?

Mr. Cooper: No, I am sorry, I do not have that.

Senator Carter: Do you know what your latest cost is per ton at the present time?

Mr. Cooper: We do not keep the overall average cost per ton—we find no use for it—so I cannot answer that.

Senator Carter: Would you have any figures comparable to what Mr. Loeb gave this morning, with respect to efficiency, number of tons per man hour?

Mr. Cooper: No, not as an average figure; no, I am sorry.

Senator Carter: On page 3 you average out the dry groceries. The average cost per ton in 1966 was $532 as compared to $498 in 1962.

Mr. Cooper: Yes.

Senator Carter: In that cost per ton have you got the same items covered in the same quantities? Are you comparing apples with apples and oranges with oranges?

Mr. Cooper: Pretty closely. We are taking our total dry grocery flow of goods, which is some 6,000 items let us say. They keep pretty much the same proportionate relationship from year to year.

Senator Carter: How do you arrive at that sort of figure?

Mr. Cooper: Well, this is from our I.B.M. houses. We have six of them that use the I.B.M., and they simply total the dollar value of the sales of groceries and the total weight of the goods shipped, and it figures out very easily at the end of the period.

Senator Carter: Some could have a very low wage and a very high cost.

Mr. Cooper: We use about the same proportions of cases of salmon, cases of butter, cases of canned goods from year to year. There is not very much variation.

Senator Carter: You have your own brand labels?

Mr. Cooper: Yes.

Senator Carter: You promote your own brand labels?

Mr. Cooper: Yes.

Senator Carter: Do you have your own lab tests to compare them with other products?

Mr. Cooper: We have three home economists who check our quality. We have a little panel every Wednesday morning where we make comparative tests, and we also have our staff report on their opinion. But we do make comparative eating or table tests of these items on which we put our own label—that is, compared with the leading competitive items.

Senator Carter: Do you have any figures that would indicate the percentage of sales represented by your brand labels?

Mr. Cooper: A percentage of sales to total grocery sales?

Senator CARTER: Yes.

Mr. COOPER: Yes, 7.29 per cent.

Senator CARTER: Is that increasing as compared to previous years?

Mr. COOPER: It is increasing moderately.

Senator CARTER: With respect to your stores—you supply a number of group stores?

Mr. COOPER: Yes.

Senator CARTER: Do you develop their pricing system?

Mr. Cooper: We give them a suggested selling price for each item which is incorporated in their order form book, and which we find they follow pretty closely. We preach their following this. We have competitive shoppers that report in, and we use their reports to set the suggested selling prices for the period.

Senator CARTER: Do you use these pricing services?

Mr. COOPER: No, we have our own.

Senator CARTER: You have your own pricing service?

Mr. COOPER: Yes, sir.

Senator CARTER: In the part of your brief headed: "General Comments on Food Prices" you say:

> Increasing pressure on staple food supplies throughout the world is most likely to result in strenghtening food prices in Canada, particularly on cereals and meats.

You are prophesying here?

Mr. COOPER: Yes, I am prophesying.

Senator CARTER: Have you any idea how long that trend will continue before there is a downtrend.

Mr. COOPER: I am afraid I will not see the end of it.

Senator CARTER: You think we destined to have ever-increasing food prices?

Mr. COOPER: Yes.

Senator CARTER: I have one more point, Mr. Chairman. I notice from these statistics that 1960 you spent nearly $40,000 on advertising as compared with $25,400 in 1965. You have boosted up your sales from $69 million to nearly $80 million, yet you have reduced your advertising. Is that usual?

Mr. COOPER: I should explain that this is a net figure. We advertise for our group stores in a manner somewhat similar to that which Mr. Loeb does, and we charge a fee to the store for this service. We also devote the advertising allowances that we receive from our manufacturers or suppliers to net it out. This amount is a subsidy for the stores in these amounts here. They have varied somewhat, perhaps due to the difference in the amount spent on advertising media.

Senator CARTER: Can you supply us with the gross figures? This is your net figure after you have deducted what your group stores have repaid you, and what kickback or allowance you get from the manufacturers, is it not? This is a net figure?

Mr. COOPER: This is a netted figure, yes, sir. This is the one we keep a watch on because it is the one that affects our pocketbook. We could get the gross figure, but it would take a little bit of digging to do so.

Senator CARTER: Do you have a pricing formula that you use all the time when you are determining your retail prices, or your suggested price list?

Mr. COOPER: Our suggested price list for retailers?

Senator CARTER: Yes.

Mr. COOPER: That is basically the competition.

Senator CARTER: You do not have any formula?

Mr. COOPER: No, sir. I do not believe in it.

Senator CARTER: Do you have a formula with respect to mark-up?

Mr. COOPER: Not at retail.

Senator CARTER: Not at retail?

Mr. COOPER: No, sir. We know what we would like to get, of course, but the overriding effect is that of the competition, and that must be respected, so much so that the best thing to do is to get the business at competitive pricing.

Senator CARTER: I gather from listening to Mr. Loeb this morning that the retailer has an overall expense that he has to recover. He has to recover that in order to pay his interest and charges, and so on and so forth, and make a profit.

Mr. COOPER: Yes.

Senator CARTER: And this has got to be distributed amongst these various items that he carries.

Mr. COOPER: Yes.

Senator CARTER: I am wondering how you determine what this should be, and how you should spread that amongst the various items.

Mr. COOPER: I think that that has to be figured out before you invest your money in a store—in fixtures and stock—because if you sell to the public you soon discover you cannot charge what you need. You have to charge what is a competitive price. Before going into business you have to figure out whether you can sell enough goods at a margin to cover these anticipated expenses. That is the best answer I can give you.

Mr. JOYAL: Mr. Cooper, you are a wholly-owned subsidiary of Westfair Foods?

Mr. COOPER: Western Grocers is, yes, sir.

Mr. JOYAL: Can you tell us who or what is Westfair Foods? Is it in the business of selling foods?

Mr. COOPER: Yes, basically. The business originated with Western Grocers back in about 1913, and it gradually accumulated some subsidiaries which were associated in associate fields in the food business, but not as pure wholesale groceries as the parent company was. The others were in somewhat different fields. In 1961 we formed Westfair Foods Limited to manage and finance and control these various subsidiaries, including Western Grocers.

Mr. JOYAL: You gave us, on Page 2 of your brief, some percentages of profits to sales.

Mr. COOPER: Yes.

Mr. JOYAL: Would you give us the gross sales of Westfair Foods Limited —you are the President of both companies, are you not?

Mr. COOPER: Yes, sir. I have them for the last two years in our published statement. In 1964 it was $187 million odd and in 1965 it was $191 million odd. Those are net sales of Westfair.

Mr. JOYAL: How much of these sales were to its subsidiary, Western Groceries?

Mr. COOPER: Well, Westfair does not sell to its subsidiaries. We add the sales of each of the subsidiaries and deduct any internal sales, and that comes to this figure.

Mr. JOYAL: I take it, therefore, that Westfair Foods—if they do not sell to you, who do they sell to?

Mr. COOPER: Westfair Foods?

Mr. JOYAL: Yes.

Mr. COOPER: They do not sell.

Mr. JOYAL: At all?

Mr. COOPER: No.

Mr. JOYAL: Therefore, their sales of $187 million in 1964 are actually the sales of their subsidiaries?

Mr. COOPER: That is right. It is a consolidated sales figure of the subsidiaries.

Mr. JOYAL: Could you give us the other sales of subsidiaries of Westfair?

Mr. COOPER: I am sorry, but I do not have those here. I did not come prepared to discuss any of the companies except Western Grocers. However, Western Grocers has much of the largest single unit of sales in the Westfair group.

Mr. JOYAL: How many of what you might call your captive stores do you have under Western Grocers Limited?

Mr. COOPER: The voluntary group of stores—what we call the contract stores—

Mr. JOYAL: They are all independent?

Mr. COOPER: Some are more independent than others. A little in excess of 500.

Mr. JOYAL: I used the word "captive" loosely, but your arrangement with them is contractual?

Mr. COOPER: Yes.

Mr. JOYAL: Are there provisions in this contractural arrangement whereby they buy their needs exclusively from Western Grocers?

Mr. COOPER: The needs we endeavour to supply, yes.

Mr. JOYAL: Does Western Grocers sell all of its produce either to or through these voluntary groups?

Mr. COOPER: No, sir. The voluntary groups amount to about slightly under 60 per cent of the total of Western Grocers' sales.

Mr. JOYAL: And the balance is sold through—

Mr. COOPER: It is sold through a variety of outlets. We have a thin population out West, and we have to scratch for business wherever we can find it. We sell to lumber camps and corporate stores, and so on.

Mr. JOYAL: You indicated in answer to a question put to you by Senator Carter that you price your goods to these retail outlets on a cost-plus basis?

Mr. COOPER: Yes, sir, to these contract accounts.

Mr. JOYAL: Do you indicate at all at what price they should sell?

Mr. COOPER: We give them a suggested resale price for each item, yes.

Mr. JOYAL: Is there any arrangement with these retailers with regard to promotional or advertising operations?

Mr. COOPER: Yes; we do much the greatest part of their advertising and promotion through a central advertising office. We do this for them.

Mr. JOYAL: Do you charge them for it accordingly?

Mr. COOPER: Yes.

Mr. JOYAL: So I take it that the figures shown in your appendices, where you show $25,000 expense for 1955, is your net figure?

Mr. COOPER: Yes, that is a net figure.

Mr. JOYAL: Can you tell what is in the gross advertising account?

Mr. COOPER: No.

Mr. JOYAL: For all of your chains?

Mr. COOPER: No, I am sorry I haven't that figure, and we don't keep that particularly. It could be ascertained, but it would be rather a heavy job.

Co-Chairman Senator CROLL: Would it be double that?

Mr. COOPER: Oh, yes, considerably more.

Co-Chairman Senator CROLL: You are the person who is billed for the avertising?

Mr. COOPER: Yes.

Co-Chairman Senator CROLL: And then you bill them for their share of the advertising?

Mr. COOPER: Yes.

Co-Chairman Senator CROLL: So you would have the figures somewhere on the books. It would be at your fingertips, the total figure and the amount you paid, the difference they pay. I should think it would be easily available; at least, that is the way it seems to me.

Mr. COOPER: There are 14 branches and quite a few media we deal with, and so on, but we can obtain it.

Mr. JOYAL: If you know what your net cost of advertising is, you must then have figured out your gross cost.

Mr. COOPER: Yes. We charge a fee to the merchant, let us say for Tomboy Stores of Winnipeg, just one per cent of their sales.

Co-Chairman Senator CROLL: For advertising.

Mr. COOPER: For advertising.

Mr. JOYAL: Is there an additional fee that you charge them for the goods you sell them?

Mr COOPER: Oh, yes.

Mr. JOYAL: What do you charge normally?

Mr. COOPER: It is a variable volume schedule, depending on the amount of their purchases.

Co-Chairman Senator CROLL: Volume?

Mr. COOPER: Yes, it is a volume schedule; and we reflect the fact that it is more economical to service a large order or a large account than a small one.

Co-Chairman Senator CROLL: How much difference is there between what you charge and what IGA charges?

Mr. COOPER: I am not aware of their charges. Our charge will run from $2\frac{3}{4}$ per cent to 5.9 per cent. Two and three-quarter per cent would be a large account.

Mr. JOYAL: To this would be added one per cent for advertising?

Mr. COOPER: Yes.

Mr. JOYAL: Do you run any promotion gimmicks in connection—

Co-Chairman Senator CROLL: Use the word "stamps".

Mr. JOYAL: Do you run any other promotion except newspaper and radio advertising in cooperation with your retailers?

Mr. COOPER: We do quite a lot of handbill advertising, circulars, particularly in rural areas and in some residential pockets where it would not pay us to run them in a whole city; that is the main thing.

Mr. JOYAL: Are there any other promotions apart from handbills?

Mr. COOPER: Are you asking for stamps?

Mr. JOYAL: Yes.

Mr. COOPER: I think we have only three independent stores—I believe that is all we have—who are interested in stamps, and who use them—three small stores.

Co-Chairman Senator CROLL: Are there any other gimmicks similar to stamps?

Mr. COOPER: Yes, we will have a bingo game, and some other things, but we don't think we overdo it. These things come and go, and you can very easily overdo it. On the other hand you can very quickly see the effect of a competitor which has put on one of your gimmicks, if you like, down the street. It affects your sales immediately.

Mr. JOYAL: In other words, your decisions to get into these things are based on the competition in a particular locality; is that correct?

Mr. COOPER: Pretty much that, and our estimate of how effective they would be. If they pay, it does not cost the consumer anything. If they are ineffective they are a waste.

Co-Chairman Senator CROLL: You have said something very close to our heart. When you decide that they are effective they do not cost the consumer anything?

Mr. COOPER: Right.

Co-Chairman Senator CROLL: Perhaps you would explain that to the committee, how the consumer gets something for nothing.

Mr. COOPER: Yes, sir. A store's expenses may be divided into two classes: fixed expense, which is about the same whether you are doing any business or not, the rent and the light and clerks; and variable expense, which depends on the amount of business he is doing and clerks to hire and so on. All right. If he is not doing enough business, not working at capacity in the store—and the way to make money is to work your facilities at capacity—if he is not doing that, then it may pay him to put out some sort of a promotion which will bring people into his store. By a very rough rule of thumb of my own, I would say if you put on a promotion that will increase your business for the time of that promotion by 20 per cent; you are probably making more money and certainly don't need to raise any prices.

Co-Chairman Senator CROLL: The only question I am asking you is: That promotion, you say, does not cost you anything?

Mr. COOPER: I said it didn't cost the consumer anything.

Co-Chairman Senator CROLL: We will come to the consumer in a moment. First, it didn't cost you anything, as I understood you. As far as you are concerned you are the man who is selling the goods?

Mr. COOPER: Yes.

Co-Chairman Senator CROLL: The promotion does not cost you anything?

Mr. COOPER: Well, it pays for itself.

Co-Chairman Senator CROLL: But there is a cost involved, is there not?

Mr. COOPER: Yes.

Co-Chairman Senator CROLL: Who pays for that cost?

Mr. COOPER: The increased gross on the increased business that this thing brings in.

Co-Chairman Senator CROLL: Who pays for the increased business?

Mr. COOPER: The consumer pays for the goods.

Co-Chairman Senator CROLL: We are back where we started, aren't we?

Mr. McLELLAND: I understand that Western Grocers are just more or less suppliers of various kinds of foods to Red and White, and Clover Farm, and Tom-Boy. Are these the three prominent ones?

Mr. COOPER: Not Clover Farm. Red and White and Tom-Boy and Lucky Dollar are the three groups.

Mr. McLELLAND: Do you do any direct financing in any of these stores?

Mr. COOPER: We lend a good deal of money to these stores as individuals.

Mr. McLELLAND: To Lucky Dollar, Red and White and Tom-Boy?

Mr. COOPER: Yes.

Mr. McLELLAND: Direct financing?

Mr. COOPER: Oh, yes.

Mr. McLELLAND: Do Western Grocers own their own bakery?

Mr. COOPER: No.

Mr. McLELLAND: Do you buy bakery products more from one bakery than any other bakery?

Mr. COOPER: We do make arrangements on behalf of our stores for buying bakery products and we will assist in promoting those products, yes.

Mr. McLELLAND: Such as Westons?

Mr. COOPER: Yes, Westons. General Bakeries.

Mr. McLELLAND: In Canada do you bring in imported vegetables more from the States than Ontario—do you find it more economical to import them from the States?

Mr. COOPER: There is a big seasonal factor there. In the winter of course it all comes from the States, I think I am safe in saying that; and I would say through the summer the west end of our territory buys Canadian products largely from the Okanagan Valley, British Columbia and from the Red River Valley, and Lethbridge. However, we do bring a few Ontario fruits into Manitoba, and perhaps as far as Saskatoon, Saskatchewan, depending on the relative prices and crops at each end of the country.

Mr. McLELLAND: Ordinarily, you do not have trucks loaded with Ontario-grown products destined for Saskatoon?

Mr. COOPER: Very seldom as far as Saskatoon, but we frequently bring Ontario fruits to Winnipeg during the season.

Mr. McLELLAND: At that time when they are in demand, where would they come from, the United States?

Mr. COOPER: Which vegetable have you in mind?

Mr. McLELLAND: Take celery, lettuce, tomatoes and cucumbers.

Mr. COOPER: There is a good deal of difference in the case of many of these fresh commodities, in the product itself. For instance, the California lettuce is a different product and generally finds more favour with the housewife than the local lettuce. We handle both.

Mr. McLELLAND: You can pay those charges on it and still be cheaper than the average prices?

Mr. COOPER: It may or may not be cheaper. It could be higher and still acceptable to the customer because of the quality and type of the lettuce.

Mr. McLELLAND: You deal in private label merchandise, as others do through chains. Taking, say, Lucky Dollar or Tom-Boy, would that product be exactly the same, under a different label?

Mr. COOPER: The same as what?

Mr. McLELLAND: The same coffee, for example. You have three different labels on coffee. Is that exactly the same coffee?

Mr. COOPER: We have Tom-Boy and Coffee Break—Lucky Dollar and Red & White. I think this is what you are saying. These are bag coffees, ground in the store, and in this particular case they are of the same grade and quality.

Mr. McLELLAND: The same product, in other words?

Mr. COOPER: Yes.

Mr. McLELLAND: But sometimes the prices are not the same. This is up to the individual store? Or does he take his suggestion of prices out of your suggestion book?

Mr. COOPER: We have a suggested selling price for that product. I cannot answer about a particular instance you may have seen.

Mr. McLELLAND: This also enters into instant coffee?

Mr. COOPER: We have two instant coffees—Red & White, and what we call Coffee Break. They are different products.

Mr. McLELLAND: We did well on the advertising and I understand that quite thoroughly, but I was wondering about your meats. I understand you are not particularly in the meat business exactly. I understand some of your stores, such as Lucky Dollar, Hi Naybor can buy meat directly from the packers such as Burns but pay for them through Western Grocers. Is this correct?

Mr. COOPER: Yes.

Mr. McLELLAND: How much do you charge for this service?

Mr. COOPER: We have varying fees. We have what we call a meat buying service fee, depending on the service we give. We have six different buying offices for meat. This would run from say one-half per cent to nearly 2 per cent depending on the amount of service we give.

Mr. McLELLAND: Do you not think it would be better for them if the individuals involved would go to the bank and borrow their own money and buy direct from people like Swift's rather than through you?

Mr. COOPER: Of course he is free to buy or borrow at any time anywhere he wishes. We do not finance—we do not like to finance people just for their merchandise. But as to buying through us, he is perfectly free to use our meat buying service or not. We have to sell him this idea and sell him on the results we get for him—which works out pretty well for him as a rule.

Mr. McLELLAND: Does this service also apply to candy, cookies, ice cream?

Mr. COOPER: Yes, there are quite a few items that may be drop-shipped by the manufacturer. Biscuits and candy are prominent; soap is a very big item; flour from flour millers.

Mr. McLELLAND: Earlier you suggested that your percentage of profit allowed to these different stores is determined by the volume they do with you. It looks as if it would be to their benefit to do everything they buy through Western Grocers?

Mr. COOPER: Yes, we figured that out quite a while ago.

Mr. McLELLAND: I often see your trucks going through the different provinces, delivering groceries to a certain number of stores—Hi Naybor, Lucky Dollar and a few more. At the same time, there are independent grocers going to your warehouse and loading their own trucks and hauling to their own stores. Do you charge those stores for delivery charges, or why do you take a truck into one particular store in a town, yet you may have three or four stores buying directly from Western Grocers but the truck only stops at the one store and the other stores go to your wholesalers and bring the goods away. Why is it? Is that an arrangement with you?

Mr. COOPER: We do not deliver outside the immediate locality of the warehouse. For example, in the City of Swift Current, we will deliver free within the city limits. To any so-called country town we would add a charge for delivery. We get a great deal of what we call calling orders, where a customer comes in to get his own. This suits his convenience. He wants to come to town, his wife wants to shop, he picks up the groceries, it saves the freight because he is coming into town anyway.

Mr. McLELLAND: Would you stop at any private ordinary individual store that was not one of your chains?

Mr. COOPER: Yes.

Mr. McLELLAND: You could stop there?

Mr. COOPER: Yes.

M. LEBLANC (*Laurier*): Monsieur le président...

Co-Chairman Senator CROLL: Wait a minute...

M. LEBLANC (*Laurier*): De toute façon, monsieur le président, mes premières remarques s'adressent plutôt au Comité en général. J'ai remarqué, depuis quelques sessions que nous avons eues, ici, au Comité, que les témoins sont obligés de nous faire de nombreuses excuses dû au fait que les mémoires sont présentés seulement dans la langue anglaise. Mes remarques, évidemment, ne s'appliquent pas seulement à *Western Grocers Limited*, mais elles s'appliquent également aux autres compagnies qui sont venues témoigner devant nous pendant les jours passés.

Alors, je me demande, monsieur le président, s'il ne serait pas juste et équitable pour les gens de langue française que, si une compagnie n'est pas prête à soumettre ses commentaires en français et en anglais, on pourrait remettre à plus tard l'audition de ce témoin et, entre-temps, entendre ceux qui auraient préparé leur mémoire en français et en anglais.

Ma deuxième suggestion: si les membres du Comité pouvaient recevoir les présentations à leur bureau au moins une journée avant l'audition, je crois que, pour deux raisons, ceci faciliterait beaucoup les choses. Premièrement, nous aurions une chance de nous préparer pour questionner les témoins. Deuxièmement, lorsque nous devons comme ce matin, ainsi que l'autre jour, siéger à d'autres comités, nous serions quand même au courant de ce qui se passe ici au Comité, même si nous sommes obligés de siéger à d'autres comités.

Maintenant, monsieur le président, si je puis poser quelques questions au témoin.

Co-Chairman Mr. BASFORD: Our difficulty and that of some of the witnesses has been that the work of the committee was organized quite expeditiously. The witnesses were called quite summarily to appear quite quickly and they were given quite a short time to prepare their briefs. In many other committees, witnesses have a month or two to prepare their briefs. In the case of the Banking Committee, which is starting its hearings, the witnesses have known about it for eight months. That was one of our difficulties in requiring briefs in both languages.

With regard to your other suggestion, we will have a Steering Committee meeting at 2 p.m. tomorrow. I think the Steering Committee will take notice of your remarks, to see if the situation can be improved.

M. LEBLANC (*Laurier*): Alors, la première question serait celle-ci: sur la page 2, on nous donne le «Westfair Profit and Dividends» pour 1965 et le «Return on Investment» en pourcentage, est de 6.48, ce qui représente une augmentation de .10 sur l'année 1964. Alors, comme M. Saltsman mentionnait tout à l'heure, les ventes de 1964 à 1965 ont quand même diminué de quelque $500,000. Cependant, on a réussi à réaliser un pourcentage de rendement

supérieur, malgré que les ventes aient subi une baisse de $500,000. Alors, j'aimerais entendre les commentaires du témoin sur l'exposé que je viens de faire.

Mr. COOPER: Well, Mr. Chairman, the return on investment that we receive I make no apology about. I make no apology on the size of that, except that it should be more. It is not a healthy return on investment. I think that it is only a fractional increase, and I am glad that it was an increase instead of a decrease. But I do not think it is really significant.

M. LEBLANC (*Laurier*): Sur la page 4, on note la «Determination of Sales Prices—Dry Groceries», je ne sais pas quelles questions ont été posées; j'aimerais une explication, car je ne sais pas trop ce que l'on veut dire par «cost plus free basis». Est-ce qu'on pourrait avoir une liste indiquant les coûts de certaines marchandises et le pourcentage, ou le «mark-up», pris sur cette marchandise, comparativement à d'autres marchandises; telle que présentée par les autres témoins qui ont passé ici auparavant?

Mr. COOPER: Our cost-plus fee, Mr. Chairman, is a determined mark-up, a schedule percentage mark-up over our catalogue cost of goods. We issue what we call a catalogue or an order form to our customer. In this he notes the number of pieces he wants of each item for his order and orders this. Each item has what we call a catalogue cost, which is our invoice cost plus any adjustments that are necessary.

Then this is invoiced. When the goods are shipped this is invoiced to the customer at cost, and at the bottom of the invoice or at the end of the month, a fee is added, based on this percentage schedule. We call this our service fee. This service fee may be as low as $2\frac{3}{4}$ per cent to be added, or it may be as high as 5.9 per cent, depending on the volume of the orders that are filled.

The low figure would be for very large orders from supermarkets, for example, and the high would be for quite small businesses, for, let us say, the poppa-momma store type of business which is expensive to service.

Have I answered your question?

M. LEBLANC (*Laurier*): D'après votre Exhibit «A», qui indique les statistiques de «Western Grocers Limited,» M. Saltsman mentionnait tout à l'heure que les ventes ont diminué d'environ $500,000, et que le pourcentage de profit a augmenté; je crois que le «net profit» que vous indiquez ici doit être après l'impôt,—il n'y a pas d'indication, mais je présume que vous voulez dire profit net après impôt. Alors, votre profit en chiffres absolus aurait augmenté de $84,000 de 1964 à 1965, et vos ventes auraient diminué d'environ $470,000; est-ce que ceci est dû au fait que vous avez eu moins de dépenses, ou qu'il y a eu une meilleure administration dans votre entreprise, ou dû au fait que vous augmentez ce que vous appelez votre «gross margin»?

Mr. COOPER: Well, answering your question, I think, as I understand it, we did have a moderate increase in the margin, but you may notice that this is pretty well an average of the five years up to now. It is not a significant change or trend. Our net profit as a percentage of sales is at the highest point for some time at .98, but still I must claim that a net margin of less than one per cent is a very thin margin to work on and is not excessive. If we were able to increase it slightly, we would not feel embarrassed about that at all.

A one per cent margin is really on the low side for an operation of this size and complexity.

M. LEBLANC (*Laurier*): Vous nous avez montré tout à l'heure un état financier, est-ce que cet état financier a été distribué aux membres pour qu'on puisse également l'étudier?

Mr. COOPER: We have the statement of Westfair Foods Limited, if anyone is interested in obtaining copies of that statement. We do not have a published

statement for Western Grocers Ltd. It is a wholly-owned subsidiary, and its accounts are all consolidated in the general accounts of Westfair Foods Limited.

However, from the audited directors' statement of Western Grocers Ltd. we have extracted these figures which are the subjects which it was indicated the committee would be interested in.

M. LEBLANC (*Laurier*): C'est tout, monsieur le président.

Co-Chairman Senator CROLL: Thank you. Mr. Saltsman is next.

Mr. SALTSMAN: Mr. Cooper, I know that you have touched on this question in response to one of the other members, but do you receive an allowance from the manufacturers for the goods you handle or buy from them?

Mr. COOPER: An allowance?

Mr. SALTSMAN: Yes. Do they give you or do you ask for an extra allowance for advertising purposes?

Mr. COOPER: Yes, quite often. We deal with numerous manufacturers in this respect. We make up our advertising and promotion program for some time ahead and we make arrangements with manufacturers to advertise and promote certain of their products. We only seek those products which we think will pull trade for our customers, but, having determined that, there is quite a wide selection of goods that are waiting for promotion, which they wish to have promoted.

We do make that arrangement and we will get advertising allowances from them. Now, in this respect we are expected and do furnish proof of performance. We give value received for this money.

Mr. SALTSMAN: Suppose a manufacturer were not to give you this allowance; what would be your attitude in a case like that?

Mr. COOPER: Well, we advertise Campbell's soup continually. It is a great traffic builder. But they will not give us a nickel.

Mr. SALTSMAN: What about a smaller manufacturer who does not have a famous brand name?

Mr. COOPER: Well, we would use our judgment as to whether we wanted to promote it or not, whether it was a good thing to promote. We do not like to take on something that we do not believe in, that will load up the retail shelves, simply because they have to have their product because it is advertised to their public, and then see it go dead. There is quite an element of judgment, therefore. It is an arbitrary judgment, if you like, but it is our best judgment usually worked out in a small local merchandising committee at each branch. We decide what is best to advertise and then, as I say, we still have perhaps a list of things that are waiting to be advertised and we will make a deal with the manufacturers of these goods.

Mr. SALTSMAN: How does the manufacturer recoup this allowance that he gives to you?

Mr. COOPER: Well, of course, he regards it as advertising, I would say, because it builds business for him.

Mr. SALTSMAN: Would he have to add this on to the price of his product?

Mr. COOPER: I think he has to pay for his promotion in the price, yes.

Mr. SALTSMAN: Suppose you are only buying a small quantity from a manufacturer of a type who customarily gives you an allowance. Would you still ask for an allowance?

Mr. COOPER: No, the manufacturer takes care of himself pretty well on that. He will give us the cold shoulder, if we cannot talk quantity.

Mr. SALTSMAN: Suppose you have bought quantity from him in the past but come back to him and want a smaller amount. Do you still ask for the advertising allowance?

Mr. COOPER: Well, we usually make our arrangements year by year, so that he has a very good estimate of our turnover and what we can do on a promotion. We try to deliver the goods. He gives us some money and we say we will promote it and we want him to come back next year and ask for more help and not to be disappointed.

Mr. SALTSMAN: Most small manufacturers of this type to find an outlet for their goods have to go to jobbers and wholesalers like yourself?

Mr. COOPER: I would say so.

Mr. SALTSMAN: Is not this then becoming standard practice on the part of wholesalers to ask manufacturers for this kind of allowance?

Mr. COOPER: It depends what you want to do. We handle many hundreds of items which we never advertise. The number advertised and promoted is a comparatively small part of the list stored in our warehouse. To come back to the promotion of various staple lines we advertise, at interesting prices and perhaps quite a large space for the man who wants to pay for it. The small man who cannot supply our full requirements or who has not a line we think is going to sell—we would not ask him for an advertising allowance and we probably would not want to handle his goods.

Mr. SALTSMAN: Regarding those manufacturers whom you ask for an advertising allowance on some products, is it not true that other wholesalers will be doing the same thing on the same products? Would they not be staple in other outlets as well?

Mr. COOPER: Yes, those wholesalers who have an organized retail outlet like our Red & White or Mr. Loeb's IGA have a promotion service to offer and this is offered on behalf of their retailers, because the benefit of the advertising money goes to the benefit of the retailers' advertising costs.

Mr. SALTSMAN: In effect are you not saying that some products would be advertised whether a manufacturer wants them or not providing the manufacturer feels he has to sell—are you in effect not saying that these must be advertised and isn't everybody else in the same business doing the same thing?

Mr. COOPER: I don't follow that.

Mr. SALTSMAN: In order to move these particular staples, I think what is coming through is that these staple items, whether you or somebody else is handling them as a wholesaler, if somebody else knew you were getting 5 per cent they would want the same thing. So in effect you would have all wholesalers buying from this man saying "You must increase your price by this amount for advertising purposes"?

Mr. COOPER: I don't think we can set his price, and I think probably the volume he can create is a bigger factor in his costs and the price he has to sell at than the amount of his advertising expenditures. This is a rather complex subject and I am not a manufacturer and I do not purport to give answers authoritatively.

Mr. SALTSMAN: Because it is complex we are hoping you will be of some assistance to us in this. I would like to follow through on some questions regarding the cost, if any, to advertise. We have a very difficult time trying to determine whether advertising costs or does not cost. Up until now everybody insists it does not cost the consumer. I would like to put this to you briefly: I can see the point you make that if one merchant advertises quite extensively and others do not, obviously there will be an increase in volume for that merchant which might be reflected in lower prices, but as we know, everyone is

doing this. The result is that what may have been a private good to one individual may not in effect be a public good to the consumer when everybody does it. In that way it nullifies the activity.

Mr. COOPER: You have given a perfect exposition; everybody does it and it is economic waste. If one man does it and gets away with it he can make money and sell goods cheaper.

Mr. SALTSMAN: This is a very important point for us. You have used the term "economic waste". Since this is a pervasive and ubiquitous thing in the economy, is this really helping the consumer when advertising is carried on to the degree that is now the case?

Mr. COOPER: I would like to think about that one. I don't think the food industry could handle or could communicate or sell the same amount of product without advertising. I am quite positive of that. Now if you say "Can this be carried and how much is it over advertised?", that is one question, but I would throw this in: that when the advertising is badly overdone in one market, and I am thinking of more than one—it is usually because all of the retail outlets in that market are very hard up for business. Perhaps there have been too many stores built in foolish competition; perhaps they are feeling a bit desperate to get business and that is when they start overdoing it, and I don't think it is a waste to the public. I think what happens is that those stores are losing a lot of money.

Co-Chairman Senator CROLL: Getting back to the term "economic waste" Dominion, Loblaw's, Safeway and Steinberg's—those four have all come forward and have said they were spending money for advertising, trading stamps and so on. The only one who isn't is A&P. Now what you are saying, if I understand you correctly, is that under those circumstances that is an economic waste when they are all doing it.

Mr. COOPER: I am not sure whether the customer likes it that way or not. I don't distinguish very greatly between trading stamps and other forms of promotions like bingo, giveaway cars, night shopping, tremendous parking lots that may cost a quarter of a million dollars of valuable property. Those things are all sales promotion factors, and I always get back to the question—does it work? If it works and brings the business or at least enough business that overhead can be kept down—then it works. On the other hand, if you have got, as is the case in one place I know, three great supermarkets almost side by side and fighting for business and using every trick they've got in the bag to get business and still not getting it, I would say that is not economic, but I would also suggest it is probably a loss at the expense of the supermarkets and not of the public.

Co-Chairman Senator CROLL: The supermarkets in this case told us it did not cost them anything.

Mr. SALTSMAN: On the question of whether it is a loss to the supermarkets or the public; after a while you get built-in costs which you have to accept. If you have to advertise against your competitor, that becomes a built-in cost. You frankly admit and everybody who has been here admits and we recognize there is a need for profit, that you must make a profit. If this becomes a cost you still have to make a profit. When these become, as I would suggest, built-in costs they are as such reflected in the prices of commodities. We would like to ask whether it is possible to distinguish between those promotions and those benefits which are offered to the public to provide useful information and necessary services and those which do not.

You made reference to a parking lot. I think a parking lot is of measurable benefit. I think we can go out and ask the consumer the value of a parking lot, and she will say, "Yes, this is of measurable benefit to us." I think quoting prices in a newspaper is a measurable benefit because it makes it possible for

the consumer to make a comparison between one cut and another and one company and another, and when it is in season and when it is not in season. How about the others?

Mr. COOPER: This is something anyone can have their own opinion on. I agree this whole thing can be overdone, but we are getting a higher standard in our distribution of foods to the public. We are getting 150 candlepower lights instead of the 50 we used to have; we have music in the store; we have chrome plated fixtures—and all these things the public has come to expect and perhaps they avoid the store that does not give those amenities. You are speaking about the bingo game in which somebody wins $1,000. That is a tangible benefit. In trading stamps, if you save up and get an electric toaster, it is real; it is not just newspaper advertising. You cannot chew or use newspaper advertising, except to find bargains. Just where you draw the line and where it is overdone, I cannot answer.

Mr. SALTSMAN: Last week an article appeared in the Toronto *Star* that aroused a bit of a storm, and it was a column written by a well-known Canadian economist who suggested there be a 20 per cent reduction in advertising allowances. If the food industry were told it had to reduce its advertising expenditures by 20 per cent, do you think the consumer would suffer as a result of such reduction?

Mr. COOPER: This is in advertising expenditures?

Mr. SALTSMAN: Advertising expenditures and promotional expenditures.

Mr. COOPER: I am quite a believer in the profit incentive, and I do not think a supermarket chain or an individual or a wholesaler continues to spend money without results in advertising. He is constantly watching that—in fact, he is always asking the question, "How do I know if I am getting anything for my money?" And the only answer is that he is successful or he is not, I suppose. But I would say most of the advertising is effective. I do not say it is good advertising and always informative; but this big black type in the paper seems to be what the public pays attention to.

Mr. SALTSMAN: I would like to return to the simple question I asked. If all the people in the food industry had to reduce their advertising and promotional budgets by 20 per cent, do you think the consumer would suffer? In other words, would the consumer be paying higher prices because you reduced your advertising by 20 per cent?

Mr. COOPER: I do not think you could give a general answer to that. This is just my approach. I believe it would affect the service some stores would give favourably. In other words, they would spend it in other ways, and I think it is pretty hard to contain that. How much should a person advertise? How are you going to say this man is advertising too much, and this one not enough? You have to leave it to the individual.

Mr. SALTSMAN: Do I gather you are a little concerned about giving me a sort of straight "yes" or "no" answer?

Mr. COOPER: I am not trying to evade really, but I find it hard to picture that in a practical context.

Mr. SALTSMAN: How can we, as the committee that is interested in trying to help the consumer, go about getting an answer to the role advertising plays in terms of costs that accrue to the consumer? Who do we go to for this kind of an answer? You are a very important man in the food industry. We have put the question to you. How much higher than you can we go?

Mr. COOPER: I think you need to be very careful in telling the distributor or manufacturer what he should spend for advertising. I think he is the best judge of the economic effect of that advertising for his business, and this is pretty closely related, I think, to the benefit to the public.

Mr. SALTSMAN: Suppose such a law were passed and your company were told it had to reduce its advertising expenditures over the last year by 20 per cent, what would be the effect within your own company?

Mr. COOPER: I think it would slow down business a little.

Mr. SALTSMAN: Do you feel the consumer would buy less?

Mr. COOPER: Yes, I think so.

Mr. SALTSMAN: Do you mean that all round the consumer would buy less and that the entire food business would slow down?

Mr. COOPER: Yes, I think so—the food business.

Co-Chairman Senator CROLL: Let Tom Lefebvre get a chance.

Mr. COOPER: May I just say, material in my hand represents expenditure.

(*The witness produces sheets of newspaper advertising*).

This costs a lot of money, but this particular sale which is being advertised will produce about a million dollars' worth of turnover, roughly; and without this flyer I think we would perhaps only do three-quarters of a million in those outlets. So is this good business, or bad? Does it help the public, or does it not?

Mr. SALTSMAN: Will your mark-up be reduced as a result of that ad?

Mr. COOPER: There are bargains offered on here.

Mr. SALTSMAN: Yes, but will your overall mark-up come down as a result of the production of that ad?

Mr. COOPER: No, I do not think so.

Mr. LEVEBVRE: I see on page 4 of your brief you give us the proportion of your private label dry groceries—to the total turnover of dry groceries, and that is estimated at 7.29 per cent. Looking back on the other witnesses we have had here, who represented retail businesses, not one was willing or able to give us the figure of their own private brands on the retail level. I would like your comment on why your accounting is able to produce this figure and the retail people find it very difficult to do so?

Mr. COOPER: You will notice I use the word "estimated" here. We took a quick round-up—and we have done quite a lot of work on this—we took a quick round-up from the stock books of the amounts of our private label and the cost of that, and I will just say we slogged it out. We do not ordinarily produce this figure in our accounting.

Mr. LEFEBVRE: If the wholesaler knows how much he sells, the retailer should know how much he buys, so why is it the retail companies, as I stated, are unwilling or unable to give us this figure? I think this is something that should be brought to their attention.

Co-Chairman Mr. BASFORD: Some of the companies did.

Mr. LEFEBVRE: I remember asking the president of Loblaw's, and they could not even tell us how much of their own coffee they were selling.

Co-Chairman Mr. BASFORD: I think Canada Safeway had the same problem. But others did.

Mr. LEFEBVRE: They have since?

Co-Chairman Mr. BASFORD: No, in their evidence, and Mr. Urie tells me that those who did not are going to supply it.

Co-Chairman Senator CROLL: This morning IGA did give a figure, and they said about 15 per cent.

Mr. LEFEBVRE: These are wholesalers?

Co-Chairman Senator CROLL: Yes. The other figure we can ask for. I am told it was 10 per cent, and not 15 per cent.

Mr. LEFEBVRE: Are you for or against these deals advertised in stores by labels on goods—10 cents, 20 cents, 30 cents off?

Mr. COOPER: That is the "cents off" problem. No, we do not like it.

Mr. LEFEBVRE: Nobody seems to like it, but we have asked this question, myself and others here, of everybody who has appeared here. Nobody likes it, but we have all kinds of them. When are we going to get rid of them?

Mr. COOPER: Well, everybody hates it, except the housewife.

Mr. LEFEBVRE: Not from the comments we get.

Mr. COOPER: Well, it is true.

Mr. LEFEBVRE: Nobody seems to know what the original price is of all these ideas.

Mr. COOPER: I know everybody gets annoyed, but then everybody is for it.

Mr. LEFEBVRE: Why do you not do something about it if you do not like it?

Mr. COOPER: We crab. We do not like it because our stock-keeping and inventory problem alone is compounded greatly. It is an insidious thing. But nobody seems to know the answer.

Co-Chairman Senator CROLL: Would you like us to help you?

Mr. COOPER: Yes, sir.

Mr. LEFEBVRE: Fine.

Co-Chairman Senator CROLL: You have made a deal.

Mr. LEFEBVRE: In your opinion, it is only the manufacturers who are holding up the removal of this gimmick in the grocery stores all across the nation?

Mr. COOPER: Basically, it is public acceptance that is holding up its removal.

Mr. LEFEBVRE: Not to my knowledge. The people I have talked to are all against it.

Mr. COOPER: It is one of those things. Everybody you talk to is against it, but it is what works.

Mr. LEFEBVRE: Do you think if this was removed it would result in an overall reduction in the net cost of these goods?

Mr. COOPER: Well, I think there would have to be promotions in other forms, but there might be some saving overall. That is hard to answer. You would almost have to try it out to see, but I would think that where there are large allowances, such as those on instant coffee where there is a 15 cent off deal, if that were discontinued there could be a lower regular level for those instant coffees.

Mr. LEFEBVRE: What seems to confuse the public is that they do not know any more whether it is 15 cents off the price today or the price it was two years ago, or whether the price has changed ten times since the first 15 cents off was offered.

Mr. COOPER: We are all dizzy with it.

Mr. LEFEBVRE: You spoke about testing your products. I imagine you also test national brands. On page 3 of your brief you say:

> We believe the essential requirements of successful private label merchandising to be:
>
> (a) quality at least equal to comparable nationally advertised brand goods. This we endeavour to maintain without exception.
>
> (b) appreciably better value to the housewife; i.e., the consumer to receive better quality for equal price, or equal quality at a saving, as compared with nationally advertised brands.

Mr. COOPER: Yes.

Mr. LEFEBVRE: When you advertise a can of tomatoes, 20 ounces or 28 ounces, are you referring to weight or fluid ounces?

Mr. COOPER: Very careful standards are set by the Government on this.

Mr. LEFEBVRE: But on a can it says "20 ounces" or "28 ounces". Is that referring to fluid ounces or to the weight?

Mr. COOPER: It is not weight, no. It is contents.

Mr. LEFEBVRE: It is the contents?

Mr. COOPER: When you mentioned fluid measure you are referring to cubic content, I think.

Mr. LEFEBVRE: It is the contents?

Mr. COOPER: When you mention fluid measure you are referring to cubic content, I think.

Mr. LEFEBVRE: Yes, what I am getting at is this: In your many tests that you make on these products have you ever drained a can of tomatoes of a national brand, or a competitive brand, and weighed the balance that is left in the can against the weight that is left in one of your cans? In other words, is the consumer getting as many tomatoes, peaches or carrots in a 28-ounce can of your goods as he is in a can of Aylmer or Heinz tomatoes, peaches or carrots?

Mr. COOPER: No, we do not make actual weight tests of the solids in those cans, but people who have grown up in the business know very quickly whether a can of tomatoes is even an ounce short in solids.

Mr. LEFEBVRE: The consumer does not know, though, when he buys a can of peaches or tomatoes of one brand as against another, whether he is getting more tomatoes in this particular can or more in that particular can, which may be selling at 4 cents off and which may have 10 per cent or 15 per cent less peaches or tomatoes in it.

Mr. COOPER: There are standards also for the solids. These standards are set by the Government. It is a minimum, of course, but it is a standard. It is a reasonable standard.

Mr. LEFEBVRE: I wonder, Mr. Chairman, if some department of government could run a sample test on these articles at our request? Some people have pointed this out to me. Can this be done?

Co-Chairman Mr. BASFORD: Somebody has pointed this out to me also.

Mr. LEFEBVRE: Let us say that they take a dozen nationally advertised products in the same size of container.

Co-Chairman Senator CROLL: Mr. L'Heureux, would you see to that, together with the people from the department, please?

Mr. LEFEBVRE: With respect to your advertising of Red & White, which is one of your brands, do you set up the advertising for the person who owns a Red & White store in local newspapers, or does he set it up and to get a kickback from you, or do you tell him that you are running an ad in a local newspaper and that his share will be so much? Can you explain to us how this is done?

Mr. COOPER: When you speak of a local newspaper are you speaking of one in, say, a large city?

Mr. LEFEBVRE: I am speaking of a city in which you have four or five of these stores operating.

Mr. COOPER: Let us take the town of Lloydminster where one man has a Tom-Boy store and he takes a handbill service twice a month—I am speaking from memory now, but this will illustrate what I mean. He might take that twice a month, and then as well he wishes to put an ad in the local paper in Lloydminster. He does this at his own expense, but we will supply him with

cuts. We will supply him with a lay-out, and in some cases if he wants to feature a certain product steadily we would arrange for him to get some advertising allowance for giving that promotion. Does that answer your question?

Mr. LEFEBVRE: If he advertises in one of the big city newspapers he is charged a certain percentage?

Mr. COOPER: Let us say that in Winnipeg we arrange this advertising—we do it for all these group members. As I say, the Tom-Boy stores in the City of Winnipeg are charged one per cent of their sales for that service.

Mr. LEFEBVRE: Plus any other advertising that they may wish to do on their own?

Mr. COOPER: Yes, that is right. If they want to give away a little prize or anything like that, then that would be done on their own.

Mr. LEFEBVRE: He is going to spend one per cent on advertising plus whatever other advertising he does on his own at the retail level.

Mr. COOPER: Right.

Mr. LEFEBVRE: I did not understand clearly your answers to the question Mr. Saltsman asked you a while ago. Do you charge a manufacturer a certain price for having his name appear on one of these flyers that you showed us a while ago? I am thinking of Heinz or Libbys.

Mr. COOPER: Yes, we really invite—we first have to set down a selection of goods that we consider to be traffic builders for the store, and then we will discuss with the manufacturer whether he wants to participate. We tell him that we have certain dates open and if he wants to participate he may do so. He may tell us that he has something else on, or that he would love to have a part in it. So, it is a negotiation.

Mr. LEFEBVRE: But you would never do business with a manufacturer who never agrees to take part in your advertising?

Mr. COOPER: Oh, yes.

Mr. LEFEBVRE: Is it not a matter of course that you sell his goods only if he is going to kick in on the advertising?

Mr. COOPER: We have many goods that we do not advertise at all, and other goods that we would advertise simply for the traffic effect they have without being paid for it.

Mr. LEFEBVRE: Do you have any national brand goods that you do not advertise at all?

Mr. COOPER: I think so, yes. It is a little hard to draw the line between what is nationally advertised and what is not, but I would say there are many brands that are distributed across Canada, and perhaps without too much advertising. Maybe they do not need too much advertising, because commodities differ a great deal in that respect. We would handle those goods, of course.

Mr. LEFEBVRE: Do any of these charges reflect on the number of cases of a certain product that you might sell? You might have a flyer there on which you might be featuring ketchup. Would you say to the manufacturer: "We will take 2,000 cases but we are going to charge you $1 a case for the advertising?"

Mr. COOPER: I would like to be able to do that.

Mr. LEFEBVRE: What could it amount to—50 cents a case, or 25 cents a case?

Mr. COOPER: I do not think so. You see, the general procedure is that a manufacturer—let us say a canner will set up so much money that he wants to spend for promotion of his product. He will then allocate that to advertisers or distributors on a basis of so much per case. If in a year you are handling 10,000 cases of that manufacturers' product you will have so many dollars, if you do

the promotion job. It is still quite in his hands as to whether he wants to make a deal with you or not. If you try to take the money without earning it then he is not going to come back, or if he does he is going to come back with bad feelings about you.

Mr. LEFEBVRE: You would never tell him that you want so much for taking so many cases of his product?

Mr. COOPER: No, and we don't need to, because so many goods are seeking a market.

Mr. LEFEBVRE: Now, I have a couple of short questions. Among the people that have your Red and White stores under the Red and White labels, do you have promotions with the owner that if he meets a certain quota of sales of a certain amount of goods that you sell him, that he will have a trip say to Mexico, or overseas, like some of them are doing?

Mr. COOPER: No, we have not provided any trips to exotic lands. Sometimes we will put up a mantle radio as a stimulating prize, and also put coupons that have a value in merchandise into his cases for him. This is a convenient way of giving him a little extra profit on that product.

Mr. LEFEBVRE: Would this be paid for out of your profits or certain manufacturers profits; in other words, who is paying for it?

Mr. COOPER: This would be regarded as a promotional expense for that product.

Mr. LEFEBVRE: Out of your own expense?

Mr. COOPER: If it is our product, yes.

Mr. LEFEBVRE: And if it is a nationally branded label it could come from the manufacturers?

Mr. COOPER: In that case we would not be putting coupons in it, no.

Mr. WHALEN: I would like to ask several questions. First of all, when you make purchases from the manufacturer, say of several thousand cases of cheese, do you ask him to throw 250 in on a deal? Do you do that at any time when you are making a deal with the manufacturer for a very large order?

Mr. COOPER: I hope we do.

Mr. WHALEN: Is there not an automatic clause that when a manufacturer ships goods there is—is it one per cent allowed for damage or .25, or something, for loss in shipment?

Mr. COOPER: There is no legal requirement and no really uniform practice. A number of the responsible manufacturers, and Green Giant is one, will give a small percentage allowance for spoilage and damage just to avoid the problem of claims.

Mr. WHALEN: You say a small percentage. Don't you know what the percentage is?

Mr. COOPER: It is some years since I have looked at it, but at a guess, an eighth of one per cent.

Mr. WHALEN: But this actually never takes place; it never actually reaches that high?

Mr. COOPER: Oh, yes, he makes that allowance.

Mr. WHALEN: But he never gets it refunded. This is in part of the deal?

Mr. COOPER: That is right.

Mr. WHALEN: There are no bigger deals you know of for large orders of manufactured goods where there is an outright one per cent of a free amount of cases provided to him?

Mr. COOPER: No. Quite often a manufacturer comes out with a so-called free deal, let us say one case of catsup free with ten, and they then endeavour

to get retailers to stock up the 11 cases to make sure that is the catsup they use.

Mr. WHALEN: Is this free deal passed on to the retailer?

Mr. COOPER: As a rule. Sometimes it is taken in and the cost averaged down and sold by a case price by the wholesaler. When he buys them they are his goods, and he can either take it out as a deal with the one free, or average the 11 cases down and just use it for the one-case price.

Mr. WHALEN: It is not always passed on?

Mr. COOPER: Well, it would be passed on, because with a deal like that coming out, every retailer knows about it, and you would not want to hold it back.

Mr. WHALEN: This year it would be difficult to make a deal like that because you are using tomatoes as catsup products, so it would probably be nil this year.

Mr. COOPER: Probably so with tomatoes, but we might be choked with goods in some other field.

Mr. WHELAN: There is still a chance, then, that you would not get a free deal on other goods?

Mr. COOPER: Oh, this is nothing new in the merchandising field.

Mr. WHELAN: Sometimes you buy a large package and a package is stuck on the side of it free. How do they get that free? That applies to a large size tube of toothpaste, and sometimes to soap suds.

Mr. COOPER: Yes, I know what you mean. We hate 'em. This is a manufacturer's idea and sometimes it works and sometimes it does not for him.

Mr. WHELAN: So it is not as free as it appears?

Mr. COOPER: It is a promotional cost and usually, let us say with a toothpaste you would probably get quite a promotional margin to work with, and if he doesn't use radio or TV, he has to get something else to put it on the market.

Mr. WHELAN: Now I have a question or two as to peaches. Has there been an increase in the price of canned peaches to the retailers in Western Canada?

Mr. COOPER: I am sorry, I can't answer that.

Mr. WHELAN: You don't know if there has been a decrease?

Mr. COOPER: No, I am sorry I am not posted on the price of peaches at the moment.

Mr. WHELAN: Let me ask you, are you handling any Australian imported peaches?

Mr. COOPER: I don't think we are at the moment, but we have handled them and probably will again. We handle certain other products—Australian pineapple and a mixed tropical fruit. I think those are the main items.

Mr. WHELAN: I know they import them at a dollar less than our manufacturers can supply them to anybody here and that prices have increased to the consumer, where actually they should be cheaper.

Mr. COOPER: The Australian peaches went up?

Mr. WHELAN: Yes, and they should be cheaper. I verified that because our peach growers were making representations to me, and there was an unwarranted mark-up of these peaches.

Mr. COOPER: I am sorry, I do not know. In our case we find enough competition and distinction between Australian peaches or pineapple to set a competitive level on those different products.

Mr. WHELAN: But again the boogey was used, the old scare element that peaches won't grow in the west so well and the consumer is told he must pay more.

Now, on "General comments on food prices", at one stage you say:

> Increasing pressure on staple food supplies throughout the world is most likely to result in strengthening food prices in Canada, particularly on cereals and meats.

I can understand meat, but I can't understand why that would apply to cereals.

Mr. COOPER: Are not wheat prices higher?

Mr. WHELAN: I can remember when I sat on the board, and one of the largest processors of wheat in Canada several years ago said, "We could increase the price of wheat to two and a half and it would not cost the consumer one penny more." Now, you are not taking into consideration the giant strides being made in research, because we know now that there is a variety of soft wheat that is used for a greater variety of goods.

Co-Chairman Senator CROLL: The witness is going to thank you for the information. Put a question to him.

Mr. WHELAN: There is not evidence whatever that these cereal prices should be up. I can't wait until these people get before the committee, because if anybody needs a line of questioning they do, and we shall need their brief a couple of days before they come. Further down in your brief you go on to say:

> Wage increases at farm level, processing plant level, in transportation, and at warehouse and retail outlet, tend to push up costs at all levels of production and distribution.

Co-Chairman Senator CROLL: We covered that point.

Mr. WHELAN: I was not here.

Co-Chairman Senator CROLL: It was pretty thoroughly covered.

Mr. WHELAN: How do you know what my question is going to be, Senator? Maybe it will be altogether different.

Co-Chairman Senator CROLL: Try it.

Mr. WHELAN: If agricultural production in Canada had increased like that of other industries, in relation to the number of people engaged in it, and this is the primary industry, we would not have to worry about our gross national product. I am saying that the produce at the primary level has nothing whatever to do with the cost of the food stuffs that the consumer is paying for, nothing whatsoever, and we can prove this. This is erroneous.

Mr. COOPER: I think it is a matter of opinion. I feel that the farmer is paying a lot more for his wages and finding it hard to get help. I think this must have an effect on the product.

Mr. WHELAN: The only thing that would have an effect would be the amount more he is paying for machinery, but the production increases at all times, with the research and power cultivation and good practices. I would say this is true more so in western Canada than elsewhere.

Mr. COOPER: Could I back up for a moment here. I believe that the food situation in the world, and particularly in certain parts of the world, is going to be disastrous within the next 10 years, absolutely disastrous, and it will have an enormous impact on everyone. This will partly be noted in the cost of food, because foods, particularly stable cheap foods are going to be scarce, going to be very badly needed, and they will not be in sufficient supply. This is my understanding from what I have read and learned on the subject.

Mr. WHELAN: If the proper economic return is given, I think the primary producer, especially in our part of the world, will have nothing to worry about. I have one other question. Mr. Chairman, I do not think you are being fair to me, as other people have had two turns of questioning, I have had only one

turn, and even you, Mr. Chairman, have asked questions, and this seems extraordinary at times.

Co-Chairman Senator CROLL: I have asked questions, not made speeches. Go on, ask your question.

Mr. WHELAN: On the cost per ton of vegetables in 1966, I do not know what these figures mean—211; whereas in 1962 it was 221. This only goes to prove my point that we are not getting the return for how efficient we are becoming or have become.

Mr. COOPER: I am not prepared to speak on the Canadian growers' return. This is merely the price of the fresh product that we handle in Western Grocers houses, which includes quite a heavy proportion of imported vegetables and fruits. This is the actual record. This is no sampling by the D.B.S. This is real.

Mr. WHELAN: Then the consumers have got a really good deal, as far as you are concerned, in the cost of fresh fruits and vegetables.

Mr. COOPER: I like to go out and campaign on a crusade for fresh stuff because it is health giving and is really the best product. You have to look at this relatively. If the prices have held steady, or less, for five years, and other prices have gone up meanwhile, then relatively it is a bargain with them. That is all I meant in the statement.

Mr. WHELAN: Under "exchange and tariff", you say:

> These are steady " built-in" factors in the cost of foods imported into Canada, and to this extent decrease the competitive factor in domestic foods.

What do you mean by that?

Mr. COOPER: May I ask what is the purpose of a tariff of half a cent per pound on bananas, the year round? What does it serve?

Mr. WHELAN: They eat more apples?

Co-Chairman Senator CROLL: One sometimes has a tariff for revenue purposes, as well as for other purposes.

Mr. WHELAN: Do you have any other examples?

Mr. COOPER: Yes, quite a few. The fresh produce duty is pretty volatile. It is taken on and off by order in council. There are some other products, and I could note some of them.

Mr. WHELAN: If you were a producer, you would not think they were put on and taken off so easily. It takes about four weeks. The United States can do it if they do not like the way you comb your hair or the way your truck is loaded.

Mr. COOPER: Let me mention these duties on U.S. imports:

CANNED VEGETABLES

Asparagus—22½ per cent
Beans 1 cent per pound
Corn 1½ cents per pound
Peas 1½ cents per pound
Tomatoes 2 cents per pound
Others 15 per cent.

CANNED FRUITS

From 2½ cents per pound to 1½ cents per pound.

DRIED FRUITS

Raisins 3 cents per pound
Nectarines, apricots, pears, peaches 15 per cent
Currants 4 cents per pound
Gift Fruit Packs 10 per cent

The commodities here may be regarded as fairly stable foods, and there is no escaping—this is not dumping—this is the regular duty imposed.

Mr. WHELAN: A lot of these, the peaches and so on, even bananas, are compared to the consumption of fruits and vegetables in Canada that are comparable as far as food is concerned, and compared to production in Canada. When you were answering before, you were worrying about feeding the world. If you put the producers up a bit, would you not get them back in business?

Mr. COOPER: I am not arguing that there should not be a duty. I am saying it is a built-in cost.

Co-Chairman Mr. BASFORD: Arising out of the question on bakery products, to what percentage do your bakery products come, and what percentage do not come, from the George Weston chain?

Mr. COOPER: I can only make a guess at that. I think they are the largest bakery supplier, but not 50 per cent. I am just guessing at that, because I have no figures at hand.

Co-Chairman Mr. BASFORD: Where would you buy other bakery products?

Mr. COOPER: General Bakeries, local bakeries, Christie's.

Co-Chairman Mr. BASFORD: Is this bread or cookies?

Mr. COOPER: I am speaking of what we usually call bakery products—bread, cookies, doughnuts.

Co-Chairman Mr. BASFORD: What would the percentage be in the case of bread?

Mr. COOPER: I am still guessing and have to repeat the same figures.

Co-Chairman Mr. BASFORD: Most of your bread would have come from Weston Bakeries Limited?

Mr. COOPER: I think it would be the largest single one, but I would say not 50 per cent. I must admit I am guessing at this, because we do not keep figures of that.

Co-Chairman Mr. BASFORD: Why would you buy bread from someone else?

Mr. COOPER: Public demand.

Co-Chairman Mr. BASFORD: This would be represented by fancy bread, the French loaf?

Mr. COOPER: No, no. We think it better business for a store, of a decent size in a city, making $10,000 a week, to have two or three national bread wraps on a shelf instead of one. We also have our own label bread, which is bought in the Western Grocers' outlets from Weston, which retails about 2 cents a loaf, under the national brands.

Co-Chairman Mr. BASFORD: You mean, you would be selling your own brand of bread and Weston's bread, all baked by Weston's?

Mr. COOPER: Yes.

Co-Chairman Mr. BASFORD: Was this true in cookies also?

Mr. COOPER: We do not use our own brands in cookies.

Co-Chairman Mr. BASFORD: What percentage of your bakery sales would be imported bakery products?

Mr. COOPER: I cannot think of any at the moment.

Co-Chairman Mr. BASFORD: For instance, these English biscuits?

Mr. COOPER: Oh, a few English biscuits, not too many.

Co-Chairman Mr. BASFORD: I take it that it is an insignificant number?

Mr. COOPER: It may be 10 per cent, it may be 5 per cent, not a large amount.

Co-Chairman Mr. BASFORD: How tied to you are the Red & White stores or your franchise stores? Do you keep control over them?

Mr. COOPER: We have a contract and we regard it as a moral obligation. It spells out our understanding but I doubt if it is legally enforceable and we have never taken it to court. This does relate the responsibility on each party.

Mr. URIE: Could we have a copy of that?

Mr. COOPER: Yes. We are making a note of that.

Co-Chairman Mr. BASFORD: What would happen to the Red and White owner who started buying produce elsewhere?

Mr. COOPER: We would talk to him and, if he did not want to do business with us, we would say: "It is a free country. Give us back our sign, and you can do as you wish."

Co-Chairman Mr. BASFORD: Would that mean that you would recall your capital?

Mr. COOPER: If he owed us money, we would ask him to repay it.

Co-Chairman Mr. BASFORD: That is automatically repayable, is it?

Mr. COOPER: Yes.

Co-Chairman Mr. BASFORD: What percentage of your franchise holders are under finance?

Mr. COOPER: You mean that we finance?

Co-Chairman Mr. BASFORD: Yes.

Mr. COOPER: Mr. Campbell thinks that it is 50 to 70 from Western Grocers Ltd., and I would certainly say that it is less than 100.

Co-Chairman Mr. BASFORD: So over those you have pretty effective control, if you are entitled to recall their loans if they step out of line.

Mr. COOPER: That is right. In other words, if he has agreed to pay us our money, we expect our money. We do not give it away.

Co-Chairman Mr. BASFORD: So he is really not entitled to go shopping elsewhere, I take it.

Mr. COOPER: That is right. That is the understanding; and he has entered into it freely; nobody twisted his arm.

Co-Chairman Mr. BASFORD: Why do you just go to the Alberta-British Columbia border?

Mr. COOPER: We have another wholesaler in British Columbia, W. H. Malkin Ltd.

Co-Chairman Mr. BASFORD: Which again is a member of Food Wide of Canada. Is that right?

Mr. COOPER: Yes, it is a subsidiary of Westfair Foods.

Co-Chairman Mr. BASFORD: So, within Food Wide of Canada, am I correct that you have got together and agreed on a territorial distribution of market areas?

Mr. COOPER: Well, I do not think Food Wide had anything to do with that.

Co-Chairman Mr. BASFORD: Where was the agreement made that the various companies would take a certain territory?

Mr. COOPER: Well, you are speaking of the Red and White franchise.

Co-Chairman Mr. BASFORD: Yes.

Mr. COOPER: Western Grocers had that franchise granted to them in approximately 1926. At that time it was from the Lakehead to the Pacific.

Co-Chairman Mr. BASFORD: They were granted the franchise by Food Wide of Canada.

Mr. COOPER: No. Red and White was the first voluntary group which started in the United States, and the name was granted to the Red and White Corporation in Toronto. I think it was under Red and White Chain Stores Limited at first, in approximately 1926 or '27, and then this was granted to Western Grocers for western Canada.

Mr. Riley, who was head of Western Grocers at that time, was one of the moving spirits in the Red and White Limited operation.

Later Western Grocers sold its branches in British Columbia to Kelly Douglas and Company, and with those branches went the territorial franchise for Red and White in British Columbia. That would have been in approximately 1935, I think, give or take a year.

Co-Chairman Mr. BASFORD: Was that before Kelly Douglas went into the Loblaw chain?

Mr. COOPER: Yes, there was no connection that I know of then.

Co-Chairman Senator CROLL: Are there any further questions?

Mr. Cooper, would you take this form comparison of retail mark-ups and fill it in and send us in some copies of it, please? All the others have been asked to do this.

Mr. COOPER: These are retail?

Co-Chairman Senator CROLL: Yes. You give us the wholesale price.

Mr. COOPER: You wish the wholesale profit and price?

Co-Chairman Senator CROLL: Yes, for those two years.

Mr. COOPER: Yes, sir.

Co-Chairman Senator CROLL: We also would like a list of your private brands and the comparable national brands and prices, too.

Mr. COOPER: At retail or wholesale?

Co-Chairman Senator CROLL: Give it to us both ways. It is available, we understand. Right?

Mr. COOPER: I think so.

Co-Chairman Senator CROLL: The hearing today has been in a preliminary way, to give us the opportunity to digest the evidence you have given us and also to look at the brief, but you may expect to hear from us again because there will undoubtedly be some further information that we will require. We expect that in due course you will come again before the committee, but in the meantime I want to thank you very much, Mr. Cooper, for your willingness to answer questions and for the knowledge and information you have made available to us. We are most appreciative.

Mr. COOPER: Thank you very much, Mr. Chairman; thank you, gentlemen.

Whereupon the committee adjourned.

EXHIBIT "A"

WESTERN GROCERS LIMITED

STATISTICS

	1965	1964	1963	1962	1961	1960
Total Sales	$ 80,035,536	$ 80,502,624	$ 77,091,136	$ 74,044,521	$ 69,031,930	$ 69,565,885
% Margin	5.61	5.41	5.44	5.61	5.73	6.00
% of Grocery sales only	4.63	4.44	4.62	4.62	4.68	4.77
% of 'Perishables' sales only	9.46	9.76	9.40	10.08	10.69	12.25
Wages	$ 1,977,398	$ 2,043,270	$ 1,972,555	$ 1,977,542	$ 2,026,935	$ 2,080,465
% of Sales	2.54	2.47	2.56	2.67	2.94	3.00
Advertising—net	$ 25,049	$ 27,578	$ 32,100	$ 20,691	$ 35,377	$ 39,915
% of Sales	0.03	0.03	0.04	0.03	0.05	0.09
Net Profit—% of Sales	0.98	0.87	0.76	0.83	0.78	0.75

EXHIBIT "B"

Product	Form	Chain Store Retail Price Winnipeg	Per Size of Unit	Individual Servings of Unit	Cost per Serving or Measure	% Variance from Lowest Cost
Apples—						
B.C.	Fresh	49¢	2 lb.	6	8.2¢	Lowest
Aylmer Fancy	Canned	37¢	15 oz.	3	12.3¢	50%
Strawberries—						
Aylmer	Canned	43¢	15 oz.	4	10.8¢	Lowest
Delnor	Frozen	59¢	15 oz.	4	14.8¢	37%
Oranges—						
Libby's	Canned Juice	55¢	48 oz.	12	4.6¢	Lowest
Old South	Frozen Juice	59¢	(2–6 oz.)	12	4.9¢	6.5%
Calif.	Fresh	65¢	Doz.	12	5.4¢	17.4%
Coffee—						
Max. House	Instant	1.69	10 oz.	125	1.4¢	Lowest
Red Rose	Ground	89¢	1 lb.	60	1.5¢	7.1%
Pride of Arabia	Wh. Roast	87¢	1 lb.	60	1.5¢	7.1%
Tea—						
Blue Ribbon	Packaged Bulk	1.29	1 lb.	240	.5¢	Lowest
Loblaws	Tea Bags	1.43	16 oz.	240	.6¢	20%
Nestea	Instant	.49	¾ oz.	25	2.0¢	300%
Salmon & Tuna—						
Gold Seal	Canned Pink	43¢	7 oz.	3	14.3¢	Lowest
Clover Leaf	Canned Tuna	47¢	7 oz.	3	15.7¢	9.8%
Clover Leaf	Canned Sockeye	69¢	7 oz.	3	23¢	60%
Beans—						
Vu-Pak	Dried White	43¢	32 oz.	16	2.7¢	Lowest
Libby's	Canned Beans w/Pork	49¢	(2–14 oz.)	4	12.2¢	351.9%
Rolled Oats—						
Quaker	Quick	79¢	5 lb.	80 oz.	1¢ oz.	Lowest
Ogilvie	Instant	59¢	44 oz.	44 oz.	1.3¢ oz.	30%
Corn Flakes—						
Kellogg's	Small Pkg.	45¢	(2–8 oz.)	16 oz.	2.8¢ oz.	7.7%
Kellogg's	Large Pkg.	41¢	16 oz.	16 oz.	2.6¢ oz.	Lowest
Soap-Detergent—						
Oxydol	Small Pkg.	52¢	1 lb. 4 oz.	8	6.5¢	25%
Encore	Large Pkg.	93¢	3 lb.	18	5.2¢	Lowest
Margarine & Butter—						
Mom's	Margarine Economy	67¢	2 lb.	32 oz.	2.0¢ oz.	Lowest
Fleischman	Corn Oil Marg.	59¢	1 lb.	16 oz.	3.7¢ oz.	85%
High Park	Butter 1#	70¢	1 lb.	16 oz.	4.4¢ oz.	120%
Cooking Oils—						
Burns	Lard	69¢	2 lb.	32 oz.	2.2¢ oz.	Lowest
Mazola	Corn Oil	$3.75	128 oz.	128 oz.	2.9¢ oz.	31.8%
Mazola	Corn Oil	83¢	24 oz.	24 oz.	3.5¢ oz.	59%
Fluffo	Shortening	42¢	1 lb.	16 oz.	2.6¢ oz.	18.2%
Bon Ami—						
Bar		37¢	16 oz.	16 oz.	2.3¢ oz.	Lowest
Aerosol Spray		75¢	15 oz.	15 oz.	5¢ oz.	117.4%
Bathroom Tissue—						
Better Buy	Economy Pkg.	89¢	8 roll	8 roll	11.1¢ roll	Lowest
Purex	Small Pkg.	33¢	2 roll	2 roll	16.5¢ roll	48.6%
Cake Mix—						
Monarch	Pouch Pack	39¢	19 oz.	8	4.9¢	Lowest
Duncan Hines	Deluxe Box Pack	49¢	19 oz.	8	6.1¢	24.5%

EXHIBIT "B"—Continued

Product	Form	Chain Store Retail Price Winnipeg	Per Size of Unit	Individual Servings of Unit	Cost per Serving of Measure	% Variance from Lowest Cost
Jam—						
Nabob	Red Plum, Lge.	99¢	48 oz.	48 oz.	2.0¢ oz.	Lowest
Nabob	Red Plum, Small	37¢	12 oz.	12 oz.	3.1¢ oz.	55%
Nabob	Strawberry, Large	$1.49	48 oz.	48 oz.	3.1¢ oz.	55%
Nabob	Strawberry, Small	49¢	12 oz.	12 oz.	5.4¢	170%
Rice—						
Riceland	Reg., Lge. Pack	99¢	5 lb.	35	2.8¢	Lowest
Minute Rice	Minute Pack, Small Pkg.	52¢	14 oz.	12	4.3¢	53.6%
Spaghetti—						
Creamette	Dry, Packaged	45¢	2 lb.	16	2.8¢	Lowest
Kraft Dinner	Packaged Dinner	31¢	(2–7¼ oz.)	7	4.4¢	57.1%
Libby's	Canned	43¢	(2–15 oz.)	6	7.2¢	157.1%
Catsup—						
E. D. Smith	Canned	39¢	20 oz.	20 oz.	2.0¢ oz.	Lowest
Hunt's	Lge. Bottle	43¢	20 oz.	20 oz.	2.2¢ oz.	10%
Heinz	Small Bottle	59¢	(2–11 oz.)	22 oz.	2.7¢ oz.	35%
Milk—						
Carnation	Skim Milk Powder	$1.29	3 lb.	60	2.2¢	Lowest
Modern	2% Fresh 3 qt.	65¢	120 oz.	15	4.3¢	95.5%
Modern	2% Fresh Qt.	23¢	40 oz.	5	4.6¢	109%
Meat—						
Steak	Round Steak	$1.09	lb.	16 oz.	6.8¢ oz.	Lowest
	Sirloin Steak	$1.19	lb.	16 oz.	7.4¢ oz.	8.8%
Meat—						
Ground	Hamburger	55¢	lb.	16 oz.	3.4¢ oz.	Lowest
	Ground Round	89¢	lb.	16 oz.	5.6¢ oz.	64.7%
Meat—						
Chops	Pork Chops, Centre.	$1.09	lb.	16 oz.	6.8¢ oz.	Lowest
Chops	Lamb Chops, rib	$1.39	lb.	16 oz.	8.7¢ oz.	27.9%
Chops	Lamb Chops, Centre	$1.49	lb.	16 oz.	9.3¢ oz.	36.7%
Meat—						
Bacon	Side Bacon, piece	$1.19	lb.	16 oz.	7.4¢ oz.	Lowest
Side Bacon	Sliced 1#	$1.25	1 lb.	16 oz.	7.8¢ oz.	5.4%
Side Bacon	Sliced ½#	75¢	½ lb.	8 oz.	9.4¢ oz.	27%
Laundry Starch—						
Silver Gloss	Powdered	23¢	16 oz.	16 oz.	1.4¢ oz.	Lowest
Perma Starch	Liquid	59¢	15 oz.	15 oz.	3.9¢ oz.	178.6%
Glide	Aerosol Spray	69¢	16 oz.	16 oz.	4.3¢ oz.	207.1%

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 12

THURSDAY, OCTOBER 27, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. S. Ron Basford, M.P.

WITNESSES:

Atlantic Wholesalers Limited: Mr. D. J. Hamm, President; Mr. R. A. Milton, Vice-President.

Couvrette et Provost Limitee: Mr. Aime Boisvert, Vice-President, Development; Mr. Bernard Couvrette, President; Mr. Rene Provost, Executive Vice-President and General Manager; Mr. Gerard Carriere, Secretary and Vice-President; Mr. Gilles Brunet, Comptroller.

ROGER DUHAMEL, F.R.S.C.
OTTAWA, 1966
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY

25016—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, Chairman

the Honourable Senators

Carter,
Croll,
Deschatelets,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. S. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Duquet,
Gray,
Horner (*Acadia*),
Irvine,
Leblanc (*Laurier*),
Lefebvre,
Mandziuk,
McCutcheon,
McLelland,
Olson,
Otto,
Ryan,
Saltsman,
Scott (*Danforth*),
Smith,
Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

First Report

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

Second Report

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and

25016—1½

House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, October 27th, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: *For the Senate*: The Honourable Senators Croll (*Joint Chairman*), Deschatelets, McGrand and O'Leary (*Antigonish-Guysborough*).—4. *For the House of Commons:* Messrs. Andras, Basford (*Joint Chairman*), Crossman, Leblanc (*Laurier*), Lefebvre, Mandziuk, McCutcheon, McLelland, Olson and Saltsman.—10.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

The following were heard:

Atlantic Wholesalers Limited:

Mr. D. J. Hamm, President.

Mr. R. A. Milton, President.

At 12.45 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), McGrand and O'Leary (*Antigonish-Guysborough*).—4. *For the House of Commons*: Messrs. Allmand, Basford (*Joint Chairman*), Choquette, Mandziuk, McCutcheon, McLelland, Olson, Saltsman and Whelan.—9.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

The following were heard:

Couvrette et Provost Limitée:

Mr. Aime Boisvert, Vice-President, Development.

Mr. Bernard Couvrette, President.

Mr. Rene Provost, Executive Vice-President & General Manager.

Mr. Gerard Carriere, Secretary & Vice-President.

Mr. Gilles Brunet, Comptroller.

At 5.45 p.m. the Committee adjourned until Tuesday next, November 1, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Thursday, October 27, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-chairmen.

Co-Chairman Mr. BASFORD: Order. Honourable senators and members, this morning our witness is the Atlantic Wholesalers Limited.

Mr. ALLMAND: Mr. Chairman, before we start, I wish to bring up a point very briefly. It is less than two months now to Christmastime. We have had evidence earlier in these sittings from the Dominion Bureau of Statistics and others, that many prices usually go up around Christmastime because of the demand by consumers.

I understand that this committee has engaged some comparative shoppers to check on prices in the stores across Canada. I would like to suggest very strongly that we—or the co-chairmen—give those comparative shoppers directions to check on the items which are usually bought around Christmastime, such as turkeys, cranberries and other such things—to see who is taking advantage of this Christmas rush. Can this be done? How many comparative shoppers do we have?

Co-Chairman Mr. BASFORD: We have some working in Ottawa here. I think your suggestion is a very good one, because, as you say, we have had suggestions that some people take advantage of the market situation. I take it your suggestion is that we would prepare a list of popular Christmas food and items.

Mr. ALLMAND: Yes, the type of things bought at Christmastime, to make sure that there is no exploitation or taking advantage of the consumer at this time. There was evidence earlier in these hearings that this was done, or that the price went up considerably in many items around Christmastime.

Co-Chairman Mr. BASFORD: We can prepare a list of popular Christmas food items and ensure, through our comparative shoppers, that we watch the price on these items across Canada from now until Christmas, which would give us an indication of whether in fact they are going up. I take it your hope would be that they do not go up for Christmas.

Mr. ALLMAND: Yes. Can this be done without putting a motion to the committee? Can you give instructions to the comparative shoppers, without a motion?

Co-Chairman Mr. BASFORD: I see no need for a motion.

Mr. ALLMAND: Fine. Could you give us a report on that within a day or two?

Co-Chairman Mr. BASFORD: Yes.

Senator CARTER: Would there be any value in asking the Consumers Association to prepare lists? I would like to get the consumers ideas on this also.

Co-Chairman Mr. BASFORD: The Consumers' Association of Canada is slated to be a witness on Monday, December 5.

Senator CARTER: I wonder if they could be forewarned, so that when they come they would have this information ready for us and not have to go away to get it. They appear before us rather late in the year.

Co-Chairman Mr. BASFORD: Dr. James is in constant communication with the Consumers' Association. They are keeping a very careful tab on proceedings. I know they have a large group working on their submission. Your comments, of course, will be noted but Dr. James is already in touch with them.

This morning we have as our witness Atlantic Wholesalers Limited, represented on my immediate left by Mr. D. J. Hamm, President, and next to him Mr. R. A. Milton, Vice-President.

In selecting our witness, the Steering Committee thought it would be advisable to hear from a representative group of wholesalers, having some reference to geographic distribution. Of course, it would be impossible at this time to call all the wholesalers in Canada and therefore we have asked Atlantic Wholesalers to appear before us as a representative wholesaler from the Maritimes region of Canada.

Mr. Hamm, I am very grateful that you have come as one company in our limited but representative list of wholesalers. Without further ado, I would ask you to present your brief.

Mr. B. J. Hamm, President, Atlantic Wholesalers, Limited: Thank you, Mr. Chairman. Before presenting the brief, Mr. Chairman, Senator Croll, honourable members of the committee, we certainly would like to feel that we can offer the pertinent facts which will be useful in analyzing what we very well agree is a complex problem.

I must also apologize for not providing copies of our brief in French. We do not at our office have the facilities to do this.

We are representing the food distribution segment of the industry, and I must say that there is much which I do not know; but I will endeavour to answer as fully as possible, and, as the chairman has mentioned, I have with me Mr. R. A. Milton, Vice-President, Merchandising, who is much, much closer to products and prices than I am. With your permission, he will answer where it is felt desirable.

We do have some supplemental information which is not in the brief but is in a somewhat rough form because of the pressure of time. However, I do wish to assure the committee that any information which we can provide and which we do not have available at this time will be provided at your pleasure.

In this presentation I feel it would be useful to the members of the Committee to have a brief outline of the company from its formation to the present before proceeding with some general observations on the company's operation.

Atlantic Wholesalers, Limited and its subsidiary companies service three Maritime Provinces, New Brunswick, Prince Edward Island and Nova Scotia (excluding Cape Breton). The company has been in existence since 1903 by New Brunswick Charter as Sackville Hay & Feed Company Ltd., maintaining its head office at Sackville, N.B. and comprising two retail stores and a service warehouse. The retail stores were subsequently closed.

Following the first world war, wholesale branches were opened at Moncton, N.B. and Newcastle, N.B. From 1919 on, the company's growth was steady and for a number of years most of its expansion was through acquisition of existing wholesale firms.

In 1944 the present company was incorporated and the various subsidiaries gradually merged under the name Atlantic Wholesalers, Limited. By 1955 the

company operated twenty-one branches and two cash and carry outlets. One other wholesale acquisition has been made since that year and two new branches, Bridgewater and Coldbrook, N.S., and one cash and carry outlet, Fredericton, N.B., were opened. Three small branches were closed and the sales areas taken over by adjacent branches.

Today our operation consists of 22 service warehouses, three cash and carry outlets together with the head office located in Sackville, N.B. Most of our branches are relatively small by today's standards. All except three are multi-floor warehouses ranging from 15,000 to 30,000 sq. ft. total area. The branches are fairly well located over our sales coverage area and most branches operate well within a seventy-five mile radius. Individual branch volumes range from five million dollars annually to under one million dollars annually.

General administration is centered at head office, together with accounting, buying, sales, merchandising, advertising and supervisory administration. All branches are on a reporting basis for accounting purposes and the buying functions are shared between the head office and branch buyers.

The company holds the Red & White franchise for all of this area and currently operates three major voluntary groups:

Save-Easy	43 units
Lucky Dollar	62 units
Red & White	55 units

in addition to these affiliated group stores we provide sales service to approximately 4,000 other accounts, consisting of grocery stores, drug stores, restaurants, service stations and institutions.

Our wholesale branches service accounts by means of a preprinted order catalogue for the affiliated stores and sales personnel for the other independent accounts.

Most of our growth in the voluntary groups has taken place during the past ten years. We presently have a sixteen man supervisory staff qualified to provide both affiliated and other independent grocers with assistance in new store construction, remodelling, stock placements, supervision in grocery and perishable operations, staff training and selection, stock procurement and merchandising.

We operate a printing and advertising department, whose main efforts are directed towards advertising and promotional material for the affiliated groups but unaffiliated retailers also make use of the services offered by this department.

We also provide a retail accounting service at a very nominal cost. We feel that this is a most important service for the larger independent.

Many progressive independent retailers lack the necessary capital for expansion either by way of acquiring new stores, new equipment, doing renovations etc. and we have over the years provided a good deal of financing assistance to such retailers. We currently have approximately 1½ million dollars in advances to independent operators. In addition to the above services we provide a general insurance program and for affiliated members a group life insurance program.

These are all services which are now relatively common with voluntary group wholesalers and I mention them only to indicate that we do have these services available, at a reasonable cost. All of these services are designed to enable the progressive independent retailer to remain competitive in his field, in particular chain store competition.

Because of the multi-level nature of our warehouses expensive mechanization is limited. During the past few years we have made improvements to several warehouses by providing more storage and order assembly area. When considering the arrangement of our branch warehouses consolidation of sales areas to

be serviced by more modern larger warehouses is known by us to be most desirable and we will move in this direction as the supply of capital permits. Meanwhile we have made improvements to our existing premises and provided mechanical equipment wherever possible. Elevator systems are gradually being replaced by belt and gravity conveyors. These changes make it easier for the warehousemen to handle goods with more efficiency. To further improve output we effected a new policy eliminating broken case ordering and under the direction of a warehouse supervisor stocks have been aligned for easier assembly of catalogue orders and instructions given for the implementation of improved receiving assembly and shipping procedures.

More frequent ordering of product with a resulting higher turnover of warehouse stocks has also helped to alleviate to some extent the problem of space so necessary for the placement of many new product lines.

All of these changes together with improved order forms have helped us handle our increasing volume with relatively little change in our ratio of warehousing labour costs to sales.

In 1954 we opened our first fruit and produce division. We now operate such facilities at thirteen branches. Volume varies in relation to grocery volume with the branches concerned. These departments are part of the main warehouse and because of this certain economies can be enjoyed. Grocery salesmen cover the outside areas for orders and the department manager concentrates on the local accounts. Outside produce deliveries can generally be merged with the grocery orders for at least one of the deliveries made during the week. Here again the doubling up on sales and delivery coverage for the fruit and produce operation has helped to hold any major increase in operating overhead to a reasonable level.

Cash and carry outlets number three only. Two are a part of the main warehouse and one a separate building. We have found that cash and carry operations in conjunction with the main warehouse are designed to offer smaller volume accounts variety and lower price. Not only does the retailer benefit but so does the main warehouse benefit by the elimination of a good percentage of call accounts, thus greatly reducing disruption of normal order assembly. This does not mean that all warehouse locations should incorporate a cash and carry outlet as projected volume in many of the smaller localities is insufficient and such a move would therefore not be warranted. In addition to regular weekly advertised specials the prices offered at the cash and carry outlets are approximately two to three percent lower than conventional ex-warehouse prices.

Delivery of orders is accomplished by (1) our own trucks and drivers and (2) by contract trucking. Our own trucks are now generally restricted to town or city deliveries and contract truckers to outside deliveries. Contract truckers are paid a percentage of sales volume carried rather than tonnage. This is not only a time saving way of calculating cost, it also provides the contract trucker with a "built-in" rate adjustment. Average rates paid to contract truckers run 1.80 per cent of sales carried. Our average branch delivery cost last year was slightly in excess of 1 percent of total recorded sales.

Our total wholesale personnel numbers 478 compared with 409 in 1960 and is made up as follows:

	1966	*1960*		*1966*	*1960*
Management	38	27	Sales	49	61
Supervisory	16	2	Warehouse	175	142
Office	129	100	Delivery	43	44
Cash & Carry	6	6	Packaging	22	27

We have enjoyed a very low rate of turnover. All branches are on the same schedule of wages for warehouse and delivery personnel. Sales personnel are on

a basic salary plus commission arrangement. Office and supervisory salaries are based on an established salary scale subject to adjustment on recommendation of manager or department heads. Managers are on a salary and profit share arrangement.

Established salary and wages are comparable with or better than the industry average in our area as indicated by a low rate of turnover. Fringe benefits presently offered are: Pension, group insurance, forty hour-five day week, three weeks vacation after fifteen years service, Christmas bonus—two weeks pay and liberal sick leave benefits.

Warehouse and delivery wages have increased by 12 per cent over the past two years. Our group insurance plan was implemented two years ago, a forty hour-five day week one year ago and three weeks' vacation for senior employees during the current year.

I have endeavoured to give you a broad coverage of our operational structure, our facilities and services. It may be of little or no importance to you in your efforts to find answers to the particular problem with which we are concerned. Nevertheless, I feel it will be of some help by enabling you to picture our type of operation in conjunction with some of the statistics to be presented.

STATISTICAL INFORMATION: The figures which I have available are based on year-end results over the past seven years. As I understand it, information on gross margin trends, wage trends, trends of other operating expenses and net profit are desirable.

SALES: Our sales have shown modest increases in the period with 1966 up 4.7 per cent, 1965 up 5.5 per cent, 1964 up 7.0 per cent, 1963 up 10.5 per cent, 1962 up 4.7 per cent and 1961 up 11.5 per cent. For the period 1960 to 1966 the total of wholesale sales increased by 53.0 per cent. An undetermined portion of the sales growth must be credited to increased cost of goods.

GROSS: Because of more concentration on group store development during the past seven years, sales to group or affiliated stores make up a larger portion of the total sales in each of the seven years. These group sales were 30 percent in 1962 and 45 percent in 1966. The voluntary group store grocery purchases are on a cost plus fee arrangement and utilize preprinted order catalogues. This arrangement averages 4½ to 5 percent mark-up on cost. Regular accounts, that is those serviced by sales personnel for smaller orders, average between 7 and 8 percent gross margin on grocery sales ex-warehouse.

Delivery is charged on the sales invoice, when applicable, and as no accounting adjustment is made there is a beneficial effect on the gross profit.

Inventory gains are unavoidable in a rising market and are reflected in the gross profit results. (We have not succeeded in maintaining an accurate record so can only estimate ⅛ of 1 percent). Of course, it must be noted that the opposite effect is true in a declining market.

Despite these variable factors, our gross margin results show relatively little change in the period under review. Grocery margins are as follows:

1966	6.47%	1962	6.63%
1965	6.63	1961	6.82
1964	6.84	1960	7.00
1963	6.70		

Produce margins are not affected by the variables mentioned in relation to grocery with possible exception of delivery charges. They are however, effected by market conditions and spoilage.

Produce margins are as follows:

1966	12.5%	1962	12.3%
1965	12.6	1961	12.1
1964	12.2	1960	12.4
1963	11.7		

In the 1959 report of the Royal Commission on price spreads of Food Products (Vol. 11—table 9, pg 88) the 1957 gross margin for grocery wholesalers was 6.8 percent and for produce wholesalers 12.1 percent. The former declined from 1949 to 1957 and the latter increased somewhat.

Similar trends are evident in our results.

Average gross margins for all departments are as follows:

1966	6.97%	1962	7.15%
1965	7.12	1961	7.34
1964	7.28	1960	7.54
1963	7.15		

NET PROFIT: As a ratio to sales our net profit shows gradual improvement over the period to a high of 1.01 percent for 1966.

Ratios are:

1966	1.01%	1962	0.85%
1965	0.96	1961	1.02
1964	0.89	1960	1.02
1963	0.85		

RETURN ON INVESTMENT: In determining the "return on investments" we take the relationship of net profit-after taxes to "net worth" or "shareholders equity" with the following results:

1966	14.3%	1962	12.9%
1965	14.1	1961	16.0
1964	13.2	1960	15.4
1963	12.9		

However, as this does not indicate total investment, we have made adjustments to the "net worth" base by adding bonded indebtedness and bank loan with appropriate adjustment for dividend in lieu of interest.

In other words, if additional equity financing had been done to offset the other loans the "return on investment" would be substantially less than the above percentages.

The results would be as follows:

1966	8.3%	1962	8.6%
1965	8.5	1961	10.0
1964	8.3	1960	10.0
1963	7.9		

PAYROLL: The trend of salaries and wages in relation to sales and total expense may be useful to you in determining the overall effect of such costs on the consumer price of food and allied products. The following ratios will show that this cost has remained fairly constant in relation to our volume.

Ratio to Sales	1966	1965	1964	1963	1962	1961	1960
Warehouse Salaries	1.14	1.14	1.16	1.15	1.11	1.14	1.11
All other	2.61	2.63	2.67	2.69	2.58	2.62	2.67
Total Payroll	*3.75	3.77	3.83	3.84	3.69	3.76	3.78

*Exclusive of fringe benefits. Estimated at 0.20% of sales for 1966.

Total payroll shows a dollar increase of 52.0% over the 7 years, and it is interesting to note the close relationship between the rate of increase in payroll and the rate of increase in sales.

	Payroll	*Sales*
1966	4.0%	4.7%
1965	4.0	5.5
1964	6.5	7.0
1963	15.0	10.5
1962	2.9	4.7
1961	10.9	11.5
Period	52.0%	53.0%

We show warehouse salaries separately to substantiate the overall trend and also to show a productivity measurement which we term "Sales Output per Warehouseman".

	Whse Payroll	Sales	Sales Per Warehouseman
1966	4.8%	4.8%	1.0%
1965	3.7	5.5	8.9
1964	7.9	7.0	3.8
1963	14.6	10.6	4.7
1962	2.0	4.8	0.5
1961	14.5	11.6	9.4
Period	57.1	53.0	31.3

I might say, that this is not a completely accurate measurement, but one year with the next it remains fairly consistent, the method by which this is derived.

For this segment of payroll cost the period average shows a cost increase substantially higher than "sales output." The spread would be greater if sales were converted to tonnage.

Total payroll as a percent of total expense is as follows:

1966	52.0%	1962	50.0%
1965	52.5	1961	51.0
1964	54.0	1960	50.0
1963	54.0		

We have confidence in the ability of our men to further increase "output" or productivity by employing improved/new methods and through increased mechanization of their various functions.

Over the past seven years we have successfully maintained a reasonable relationship between increases in sales, payroll and output thus enabling us to continue to operate on a gross margin average which shows a gradual decrease from 7.54% to 6.97% or 0.57%.

Gross Margin

1966	6.97%	1962	7.15%
1965	7.12	1961	7.34
1964	7.28	1960	7.54
1963	7.15		

Without the sales increases enjoyed over the period the effect of not only payroll cost increases but also other expense increases on profits would be very evident. Volume and turnover are the two major factors in maintaining our level of profits.

EXPENSES: A few of the major items have been isolated to show the trend, and although expressed as a ratio to sales, you can readily see that there is a substantial dollar increase involved.

Ratio to Sales	1966	1965	1964	1963	1962	1961	1960
Interest Expense	0.63%	0.58%	0.53%	0.48%	0.46%	0.44%	0.44%
Depreciation Expense ..	0.36	0.35	0.35	0.36	0.41	0.40	0.42
Municipal Taxes	0.20	0.19	0.20	0.21	0.20	0.19	0.19

Transportation or delivery cost is down in relation to volume. Over the period the various changes made in our delivery set-up and concentration of volume accounts has tended to slow the dollar cost increase and show the following trend to total sales:

Ratio of Delivery to Sales

1966	1.03%	1962	1.17%
1965	1.08	1961	1.20
1964	1.13	1960	1.30
1963	1.13		

Advertising is a very limited expenditure in our wholesale operation. We have determined it is less than 1/10 of 1% and really, therefore, no comments are necessary.

Most other expenses have increased and I think it is to the credit of the food distributor that he has continued to provide a very necessary service without increasing his margin on sales to the retail trade.

The general economy has been a buoyant one these past few years. Unemployment has been at a low level and in many families both the husband and wife are working. As a result, consumers generally have been spending more freely. Buying on credit has been made easier thus adding to the increase in the volume of consumer goods moved.

In the food industry alone fancier packaging, frozen foods of all descriptions, precooked meals, convenience foods, more glamorous markets and equipment, added services and convenient parking have become a part of our everyday existence in urban areas—and not without added cost.

We, as service wholesalers, perform an essential service for retailers and for the general population. Our activities, as well as those of our contemporary wholesale food distributors, in supporting and sponsoring the independent merchant serves to provide alert, active competition for the larger retail chain stores. This serves the interest of the consumer in keeping pricing close.

As an industry, we do our job efficiently and more economically than any alternative system that has yet been devised and efficient management is rewarded by a net profit averaging close to one percent of sales. Competition is keen and the immediate concern of management is to maintain profit levels in the face of lower margins and increasing costs.

Co-Chairman Mr. BASFORD: Thank you very much, Mr. Hamm.

Mr. ALLMAND: Mr. Hamm, how many competitors do you have in the wholesale grocery business in the Maritimes?

Mr. HAMM: In numbers, I do not quite know offhand. I know that a major competitor, G. E. Barbour Company Limited, for one, is a major wholesaler in the New Brunswick area with five or six warehouse outlets. We have in Nova Scotia the IGA distributor, Boland's Limited, and Halifax Wholesalers Limited out of Halifax who are Clover Farm distributors, and in Prince Edward Island there is DeBlois Limited.

Mr. ALLMAND: Do you know what your rank is in the Maritimes so far as size goes?

Mr. HAMM: So far as our own size is concerned I would say we rank first in volume of sales at the wholesale level.

Mr. ALLMAND: I understand that in Moncton there is a large co-operative wholesaler; is that correct?

Mr. HAMM: Yes, there is, Maritime Co-Op Services.

Mr. ALLMAND: Does it do a very big business?

Mr. HAMM: Let us say they are doing much more business, and they are developing supermarket size stores, for example, in Moncton itself. As a matter of fact, I should say that there is one opening today in Amherst.

Mr. ALLMAND: In Nova Scotia there are many co-operative retail stores, are there not?

Mr. HAMM: Yes, quite a few, but to my knowledge they are not all associated with this Maritime Co-Op Services in Moncton. Many of them are just a co-operative group in the smaller towns and villages, and they have their own elected boards.

Mr. ALLMAND: Do you sell to any co-operative stores?

Mr. HAMM: Yes, we do, although not as much as we might like to, perhaps.

Mr. ALLMAND: Do you have any premium stamp organizations within your company?

Mr. HAMM: No, we do not.

Mr. ALLMAND: I notice that you have three voluntary groups of stores.

Mr. HAMM: Yes.

Mr. ALLMAND: Do they have stamps?

Mr. HAMM: No, there are no stamps in use by any of our accounts, either affiliated or non-affiliated, to the best of my knowledge, unless there are a few of the considerably smaller stores of less than supermarket size that may have picked them up from companies that were putting them out—say, service stations. There are a few service stations and accounts such as that which do handle them.

Mr. ALLMAND: I think you are the first witness directly from the Maritimes. Are stamps used very much in the food retailing business in the Maritimes?

Mr. HAMM: Stamps are limited to one distributor within an affiliated group, and that is Boland's, an IGA distributor out of Dartmouth. They have a group—I believe the number is in the neighbourhood of 50-odd stores. To the best of my knowledge not all of these stores participate in the stamp program, but the majority do.

Mr. ALLMAND: And have the stores that are voluntarily associated with your organization and who do not use stamps felt that they suffer any competitive loss because these IGA stores are using stamps? Since the stamps have been introduced in the IGA stores has their business fallen off? I am asking you about the stores associated with your group. I ask this question, sir, because other chain stores that have been here have said that they just had to use stamps because their competitors use them, and that if they did not use them they would almost go out of business.

Mr. HAMM: There are very many of our locations that I could name that would fall into that particular category; not that they would go out of business necessarily, but I do feel that in an area where we have a store, the store using stamps does have a definite advantage in that they, shall we say, provide the customer with an incentive to continue in order to enjoy that stamp program. She becomes a captive customer, to some degree.

Mr. ALLMAND: Then, you think that the stores that have stamps make their customers more or less captive?

Mr. HAMM: I used the word "captive" in the sense that I think any consumer who is saving stamps, or who gets started on saving stamps, will want to continue, and consequently she would continue to trade with that particular store.

Mr. ALLMAND: As a result, is your organization considering suggesting to its retail associates that they use them?

Mr. HAMM: We have had this come back from a few of our own independent affiliated stores, yes. We have investigated it on more than one occasion. In fact, as recently as within the past six months we have examined the possibilities of a stamp program, but we have not recommended its use to our stores—well, we just have not.

Mr. ALLMAND: Do your stores use other gimmicks to promote sales?

Mr. HAMM: Yes.

Co-Chairman Senator CROLL: Why did you not recommend stamps? Is it the cost?

Mr. HAMM: There is one point, I think, that with stamps—some of the members of our major group, the Save-Easy Stores, were originally involved with stamps, and they dropped out of that program and joined our program. One of their main reasons was that stamps were proving to be fairly costly for them. Because of this we have tended to stay away from stamps. It has been the policy of our company, in any case, right from the beginning of our program to concentrate on low prices, and we did stay with this policy of a low price image until it reached the point where low price plus promotions and stamps were, in effect, the competition. This is what more or less has pushed us into the promotional type of gimmick, if you wish. We have provided our major group—our Save-Easy group—with two promotions during this past year. I think one of the advantages of these promotions is that normally they run for a 13-week period. If they do not prove to be beneficial volume-wise then at least the cost factor is off at the end of 13 weeks, and it can be spread more evenly over the year.

Mr. ALLMAND: Briefly, what are these two promotions that you have in your organizations?

Mr. HAMM: Well, this past year we had what we call "Pay Cheque". That was about six months ago. I do not know what name this type of promotion might be given in this market area, but I know it was in common use in many areas of Canada. It is the type of thing where you have two sections of a cheque, so to speak, which must be matched.

Mr. ALLMAND: It was a sort of a contest?

Mr. HAMM: Yes, a type of contest.

Co-Chairman Senator CROLL: Mr. Allmand, may I have one minute? You were talking about stamps, Mr. Hamm. The Federal Trade Commission of the United States yesterday completed a study of costs, with particular emphasis on bread and milk, and I would like your comment on this note that I shall read:

> It took note of some of the food buying boycotts that have recently broken out across the country.
>
> This "growing consumer resistance," the agency said, may result in intensified price competition, such as the use of trading stamps, that has substantially raised retail distribution costs over the last decade.

That was their finding as of yesterday or the day before, after a long study.

Mr. HAMM: That it has substantially increased the cost of—

Co-chairman Senator CROLL: Stamps have increased the cost of retail distribution.

Mr. HAMM: Distribution.

Co-chairman Senator CROLL: Do you agree with that?

Mr. HAMM: Well, it is very difficult, not having factual experience of our own in it. I think about all that I could really say on that is that most stores do have a promotional amount which they use for promotional purposes and that if they restrict themselves to this promotional budget or advertising budget and use stamps and remain within that cost, I suppose looking at it from the retailers standpoint it does not in effect have an appreciable effect on the final cost of the goods they are carrying.

Mr. ALLMAND: Where do you buy most of your food products, in the Maritimes, or Upper Canada?

Mr. HAMM: Would you be a bit more specific when you say food products.

Mr. ALLMAND: Fruits and vegetables.

Mr. HAMM: Fruits and vegetables. I do have a few brief comments on that particular part of our operation. I would say that most of ours is imported, as far as the Maritimes is concerned. From the United States we do have quite a bit of produce coming in from the Boston market area, and in season, of course, coming in from the Ontario market, and the local product as well is in distribution.

Mr. ALLMAND: And with regard to canned foods, do you have many canners in the Maritimes?

Mr. HAMM: A fair number I would say. Mr. Milton might answer that.

Mr. R. A. Milton, Vice-President, Merchandising, Atlantic Wholesalers Limited: Vegetables and apple products mainly.

Mr. ALLMAND: I am on the transport committee and I hear about the high cost of transportation in the Maritimes which enters into cost. Do you find this difficult?

Mr. MILTON: It is expensive. It costs a fair amount to get canned goods from Ontario factories to the Maritimes, yes.

Mr. ALLMAND: Do you bring in a good percentage from Ontario?

Mr. HAMM: Yes.

Mr. ALLMAND: My last question is, do you have much difficulty, say, with the size of food containers, various sizes of packages and cans? Do you find this annoying—would you prefer more standardized packaging?

Mr. HAMM: I think the answer to that is that Canadian Grocery Distributors Institute, as well as Canadian Grocery Product Manufacturers Association, have devoted, I think, considerable time to this very problem in an attempt to improve it.

Mr. ALLMAND: What about your position in the Maritimes, are you pressing for more standardization, do you approve of fewer types of sizes of packages and more standardized packages?

Mr. HAMM: When you speak of packages to me as a distributor you are in fact speaking of cartons rather than the individual package.

Mr. ALLMAND: You have voluntary groups associated with you?

Mr. HAMM: Well, yes, from the retail—

Mr. ALLMAND: What is their reaction in regard to sizes of packages, cans and bottles, and so forth, have they expressed a desire to have fewer and simpler packaging?

Mr. MILTON: I cannot say that they have expressed too much desire for fewer sizes; but space is a real problem with both wholesale and retail

operators, and with the number of new products coming on the market and the variety of sizes and colours, and size of packages, there is no question it is a real problem.

Mr. ALLMAND: Therefore you say it is a real problem. Do you and the groups affiliated with you prefer a more simplified system or more standardized system? Would you like legislation in this respect? They have just passed a bill in the United States with respect to standardization of packaging, and so on. Would you like something like that?

Mr. MILTON: The bill they passed, if I am not mistaken, has to do with odd fractions of ounces, and that sort of thing.

Mr. ALLMAND: I have that in mind, too.

Mr. MILTON: Oh, in certain categories of products I feel we have far too many sizes, yes; but it is hard to generalize on it because in one category you might require more sizes than in another, but there is no question in my mind we do have too many sizes.

Mr. ALLMAND: You feel you do have too many sizes?

Mr. MILTON: Yes.

Mr. ALLMAND: I have a few other questions, Mr. Chairman. Perhaps you could put me at the bottom of the list.

Co-Chairman Mr. BASFORD: Mr. McCutcheon?

Mr. MCCUTCHEON: Thank you, Mr. Chairman. Mr. Hamm, on page 3 of the brief—this is just a matter for clarification—you indicate a financial interest in your affiliated stores—and the brief goes on to explain that you currently have approximately $\$1\frac{1}{2}$ million in advances to independent operators. Is this cash or product on consignment?

Mr. HAMM: Not really either one in itself. It involves financial assistance, and generally speaking equipment and stock would be the major amounts, and amounts of assistance would be given to the smaller merchants doing renovations, possibly renewing their store front, or realigning the front of the store, adding possibly a few more islands, or to add a piece of equipment for which they are not able to produce cash at that time. It is not strictly in inventory and it is not strictly in equipment, and some of it as well, the smallest portion I would say, is for people whose accounts have gone into arrears and wish to start out on a long term afresh to keep their obligation current.

Mr. MCCUTCHEON: What type of agreement do you have, or do you have an agreement, with these affiliates?

Mr. MANDZIUK: Mr. Chairman, may I ask a supplementary question first? Is this on your books as an investment? Do you hold a mortgage on this equipment or how do you deal with your borrower?

Mr. HAMM: Well, sir, in the case of a new market, say, which could involve inventory, a stock and inventory layout of $75,000, the retailer would find a portion of that, generally speaking, a smaller portion, and in advancing this money we would take the normal business procedure of obtaining a chattel mortgage on the stock and fixtures.

Mr. MANDZIUK: But it would be an investment so far your books are concerned.

Mr. HAMM: It would have to be shown on the assets side of the ledger, yes, of the balance sheet, definitely as an investment.

Mr. MCCUTCHEON: Do any food corporations of any description own shares in your concern?

Mr. HAMM: Well, yes, I would think. I have no doubt there are a few on our list of shareholders. I do not have that information readily available. I could

not name any right off, but I know there are at least one or two—I feel quite certain that are on the list as shareholders of the company.

Mr. McCUTCHEON: Do you have any affiliation in any way with any large wholesalers in Canada?

Mr. HAMM: We have an affiliation through our Red and White association, with Foodwide of Canada, yes, in association with other Red and White wholesalers.

Mr. McCUTCHEON: In other works, you do joint buying with them to strengthen further your position to buy as cheaply as you can?

Mr. HAMM: Yes, I would say that is correct.

Mr. McCUTCHEON: How do you buy produce in Ontario?

Mr. HAMM: I am not too sure.

Mr. MILTON: There are brokers in the business. We deal mainly through brokers rather than directly with growers or producers, as far as Ontario is concerned.

Mr. McCUTCHEON: Would most of them be centred in the Toronto area, for example?

Mr. MILTON: That is something I cannot answer and I am sorry to say that produce is the part of our operation that I am least familiar with, and we did not bring our produce man with us. I do not know where they are located.

Mr. McCUTCHEON: The bulk of it is done through brokerage?

Mr. MILTON: Yes, I think it is. We buy a lot of peaches in season, and strawberries and carrots and onions.

Mr. McCUTCHEON: Does a large percentage of your product come from the Boston market?

Mr. HAMM: That is correct.

Mr. McCUTCHEON: Would you care to comment—this is a hypothetical question—are food prices on the average higher or lower in the Maritimes than in the rest of Canada?

Mr. HAMM: I agree, sir, that it is a hypothetical question. It had occurred to me that perhaps we would have been well advised to make a survey of some of the stores here. Perhaps it would have given us a better idea. Speaking for our own stores, certain products are certainly higher, but many are comparable. Whether the reason is one of initial cost or of taking a lower gross margin and less profit, it would be difficult for me to say.

Mr. McCUTCHEON: It is many years since I have been in the Maritimes. What would be the penetration of chain stores through the area?

Mr. HAMM: I would hesitate to say just what the penetration is. Perhaps a recent issue of the *Canadian Grocer* has this information. According to the 1965 report put out by the *Canadian Grocer,* the chain stores versus group stores, the percentage of total was 26.8; group stores 22.5; and the balance in unaffiliated independents, 50.7 per cent. I cannot really say whether that is increasing or whether it has levelled off or is on the decline. I would only express my hope that it is on the decline.

Mr. McCUTCHEON: Mr. Chairman, would it be possible for our committee to have figures from the D.B.S. or some such source at a given time of retail grocery prices in the Maritime area as compared to grocery items in the rest of Canada?

Co-Chairman Mr. BASFORD: Yes, we can obtain that from D.B.S.

Mr. McCUTCHEON: It seems to me that there is one feature that is coming out here this morning, that the penetration of the supermarket in the Maritimes is not as complete as it is in other parts of Canada. We are trying to find out

what is causing the high cost of living and I think that might be helpful to us in making up our report.

Co-Chairman Mr. BASFORD: Yes. When the D.B.S. was in front of us they did not go into regional differences but they were prepared to do so and we can obtain that information.

Mr. McCUTCHEON: In my opinion, that might be helpful.

Co-Chairman Mr. BASFORD: Yes. Dr. James has noted that.

Senator CARTER: Mr. Hamm, on page 1 of your brief you say that you service the Maritime provinces, "excluding Cape Breton". Is there any special reason for excluding Cape Breton?

Mr. HAMM: No, we really do not have anything against Cape Breton. There is another Red & White distributor in the Cape Breton area—that is one reason. I think the name is L. H. Chernin Limited. They are also associated with Foodwise Limited. Their location is at Glace Bay. Any person from Cape Breton here could probably pinpoint it in the Cape Breton area. We have never gone beyond Port Hawkesbury area. We have one account in Port Hawkesbury. That is all.

Senator CARTER: You do not service any stores in Newfoundland at all?

Mr. HAMM: No.

Senator CARTER: You have given your statistics mainly in percentage of sales, and I think you indicate that you have a substantial increase every year, adding up to a 50 per cent increase over five years?

Mr. HAMM: That is correct.

Senator CARTER: Could you give us your gross sales for last year?

Mr. HAMM: Yes, I think that this information has been fairly accurately forecast anyway by more than one interested party. Our volume this past year was $53 million. In 1960 our volume was $35 million.

Senator CARTER: This is practically all grocery commodities, or retail items that are sold in grocery stores?

Mr. HAMM: That is correct.

Senator CARTER: Do you manufacture or do you have any private label brands for your clients?

Mr. HAMM: We have a very limited number of private label items, some of which are for general use. By that I mean that they can be purchased for use in a store that is not affiliated. Others, by the nature of the name, are restricted to use in group stores. Would it be of interest to you to know what particular types of items we deal with in private labels?

Senator CARTER: It might be of interest to mention a few samples. I am interested chiefly in your percentage of sales.

Mr. HAMM: In these items?

Senator CARTER: Yes, and the percentage of total sales, as represented by these items.

Mr. HAMM: It is a very small percentage and it must be estimated, as we do not have any accurate information on it. The estimate which we consider would cover it is between 1 per cent and 1½ per cent of sales. It is a very small figure.

Senator CARTER: Have you a program of promotion in these private lines?

Mr. HAMM: Through our sales force.

Senator CARTER: Is that 1 per cent increasing or has it levelled off for a number of years?

Mr. HAMM: It has been increasing, if you relate it as a percentage of sales, because the sales themselves have been increasing, the dollar amount has gone up. I have not mentioned the items yet. There is "Valu-Pak" which we use for dried fruits and nuts. Then we have, in molasses, a brand called "Silver Seal". We have Sun Spun salad dressing and powdered milk. That is for general use. For the group store, we use "Save Easy" instant coffee, peanut butter, evaporated milk, tea bags. We have Red & White instant coffee and peanut butter. That is the extent.

Co-Chairman Senator CROLL: May I ask one question? Are these private brands of yours comparable to the national brands in quality?

Mr. HAMM: I would say they are, sir.

Co-Chairman Senator CROLL: How are they in price compared to national brands?

Mr. MILTON: This case price is not broken down into units.

Co-Chairman Senator CROLL: Take a minute and break it down into units, then. You do not have to be exact, but I would like to know if it is half the price, for example.

Mr. MILTON: No, it is more than half the price. Taking peanut butter as an example, our private label is 32 against 41 for an advertised brand.

Co-Chairman Senator CROLL: Would that be about the same thing across the board for all the others?

Mr. MILTON: Roughly, yes.

Co-Chairman Senator CROLL: Roughly. Well, IGA told us they had 10 per cent in private brands; Western Grocers said they had 7½ per cent in private brands, and they said it was comparable or about the same sort of price. How do you explain that you have one to 1½ per cent in private brands where you are giving comparable value—and I am sure you are right—for about 30 per cent off? That is, 30 per cent less than the national brand? If I remember my Bluenose Maritimers, they watch a penny pretty carefully.

Mr. MILTON: I would have to say, in all honesty, that we have possibly been a little bit slow in developing private brands. Private brands have just been coming to the fore with all these people within just the last couple of years, and we may have been dragging our feet just a little. We have been giving it a lot more thought lately, but up until fairly recently we have found it rather difficult to develop private labels in the face of the heavy promotional activity on nationally advertised brands.

I can see where a retail chain organization could do a much better job on them than we can on our type of operation. We are dealing with independents who own all their own stores.

Co-Chairman Senator CROLL: I compared you with independents. IGA and Western are independents. They are in the same type of business that you are in.

Mr. MILTON: I will have to go back, then, and say that we plan to get into more.

Mr. URIE: Mr. Chairman, I would like to ask a question: is the difference in the ultimate cost to the consumer explained solely on the lower distribution and lower promotional costs involved in your private labels as opposed to the national brands?

Mr. MILTON: I would think so. It should be a so-called stripped down cost without any advertising expense or selling expense assessed against it.

Mr. URIE: Thank you, sir.

Senator CARTER: Mr. Hamm, you have some 4,000 accounts, I think, in little shops, and then you have a number of units: Save-easy, 43 units, Lucky Dollar,

62 units, and Red & White, 55 units. Do you provide services to all of these groups?

Mr. HAMM: To the groups?

Senator CARTER: Yes. These are your group stores, group outlets.

Mr. HAMM: Yes. We do.

Senator CARTER: Now, do you assist them with pricing? Do you help them determine their retail prices?

Mr. HAMM: These group stores utilize a pre-printed order catalogue. We do show in that catalogue a suggested retail price only. I should say we show a suggested shelf price for their guidance. We do this because we have found that many of them are quite out of touch, in a sense, and not able, because of the press of business, to keep up with the general movement in costs and the maintaining of prices, and it is a considerable asset to them to have this guide.

Senator CARTER: In your own operation, when you are determining your own mark-up, I do not think you told us in your brief, or I may have missed it, but did you give any figures about your own mark-up?

Mr. HAMM: I mentioned that our affiliated stores, or stores buying on so-called cost-plus fee arrangements, and this is from the accounting information which we have, give an average return from these accounts of just over 4½ per cent.

For the general trade I believe the figure I have used is between 7 and 8 per cent. That is more of an estimate, actually, than the other one, but it is reasonably close and is related to our overall results.

Senator CARTER: Do I understand that you are saying that your average mark-up would be 7 or 8 per cent? Is that a correct interpretation?

Mr. HAMM: No. Just the general store volume, those unaffiliated stores. Shall we say these 4,000 odd accounts that we have mentioned are sold on a somewhat higher level.

Co-Chairman Mr. BASFORD: Excuse me, Senator Carter. The Committee will have to excuse me for a moment. I have to leave. I am sure it will be some pleasure to you, Mr. Hamm, to know that I have to go to another committee to be a witness myself.

Mr. HAMM: You have my deepest sympathy, sir.

Excuse me, senator, but did I give you the impression that these larger groups were paying more than 7 to 8 per cent?

Senator CARTER: Yes. I was trying to find out what your average mark-up was, either overall average or average on commodities, whichever would be more convenient for you to give us.

Mr. HAMM: The overall average is recorded in the brief at page 7. The grocery margins, overall, averaged 6.47 per cent for 1966 as compared with 7.0 per cent in 1960.

Senator CARTER: I probably did not understand your definition of margin. Now, in determining your mark-up, what factors do you take into account and how do you weigh each factor relative to every other factor? How many factors do you take into consideration? And I would suggest that one factor, for example, is that you have got to meet certain overhead expenses; you have to have certain returns to cover what you have paid out; you have your operating expenses; you have your labour costs and so on and so forth.

How do you weigh each one? Do you have a formula or just how do you spread this cost, this mark-up, over many different commodities? I take it that you do not have a straight percentage mark-up on each item?

Mr. MILTON: Yes, we do.

Senator CARTER: Oh! You do have a separate percentage mark-up on each item?

Mr. MILTON: Yes.

Mr. HAMM: From there on I think you would probably have to say that competition does have an effect on those prices, to a certain extent. On some of the items, at any rate.

Senator CARTER: I think you told the Committee something new on page 5. At least, I have not come across what you say there in any previous brief, and I am referring to the arrangement you say you have with contract truckers. You say that you pay these truckers a percentage on the sales volume of what they deliver. That is right, is it?

Mr. HAMM: Yes, that is correct.

Senator CARTER: Does this put your trucker in the position of being a part-time salesman? Obviously, the more you sell the more he carries.

Mr. HAMM: No. Not really. It was intended initially to eliminate what we considered a fairly heavy workload at the branch office level. That is, we determine the tonnage so as to pay most of the truckers so much per hundredweight. In breaking down their loads, then, in tonnage to determine their payment, it involved a considerable amount of work. Through analysis of the matter and through discussions with some of these contract truckers, we were able to arrive at a figure of 1.8 per cent. That is what it is now. 1.8 per cent of sales is considered a reasonable return for the contract trucker's delivery of the goods.

In other words, if the assembled load for 6 accounts, for example, totalled $10,000 in sales value, it is a very simple matter for us to add up the sales slips and take 1.8 per cent of that, and that is what a trucker would be paid.

Senator CARTER: Yes, but he has an incentive to help you sell your goods, has he not, because the more you sell the more he carries?

Mr. MILTON: No.

Mr. HAMM: He has nothing to do with selling. We are primarily interested in his making the deliveries as fast and efficiently as he can, and we have found that this does have a tendency to move the goods along a little faster.

Senator CARTER: Does it not encourage him to get people to buy from you so he can get another load?

Mr. HAMM: No.

Senator CARTER: On page 10 of your brief you have a table which is meant to be some indication of the efficiency of sales per warehouseman. That is meant to indicate the efficiency per man. There are some very wide fluctuations there from .5 per cent to 9 per cent.

Mr. HAMM: Yes, this is true. It shows up with rather a swing in that measurement—in the percentage measurement. I may possibly have a dollar calculation for that.

Senator CARTER: How would you explain that wide diversion?

Mr. HAMM: Well, about the only explanation I can give is the rise and fall in the amount of output per man or in the amount of goods handled per man in any one particular year. This is not an entirely accurate forecast of productivity. It is extremely difficult at some branches to average out the man-hours used. We generally take it off semi-annually for our own guidance to see whether a branch has shown some improvement in its output. If they maintain a warehouse staff of four, both last year and this year, and the volume goes up 10 per cent, there should be a relative increase in output.

Senator CARTER: You have not reduced it to tons per man-hour?

Mr. HAMM: No, we have not.

Senator CARTER: Other witnesses have given statistics in those terms.

Co-Chairman Senator CROLL: Mr. Mandziuk.

Mr. MANDZIUK: I would like to ask the witness how many middlemen there are dealing with a product from the time it leaves the producer until it lands on the retailer's shelf. I have in mind, as an example, anything you get from Ontario—canned tomatoes, peaches or pears. How many middlemen are there before it reaches the retailer? The committee realizes that everyone who handles the product has to make a profit so as to be paid for his services. What we are seeking is the culprit who makes the most. The more middlemen there are the higher the price to the consumer will be, and as we know, what the consumer pays has no relationship to what the producer gets for his product. Would you mind naming these middlemen, and then I shall have another question following that.

Mr. HAMM: You are not referring to fresh fruits, are you?

Mr. MANDZIUK: No, canned.

Mr. MILTON: To the best of my knowledge the canned peaches go from the grower or producer to the canner, and then from the canner to ourselves and from ourselves to the retailer and from the retailer to the consumer.

Mr. MANDZIUK: You are leaving out the carrier, aren't you? What about the trucker? That adds to the cost, doesn't it?

Mr. MILTON: That affects the cost, yes. I have never regarded the carrier as being a middleman, but I suppose it does contribute to the cost.

Mr. MANDZIUK: You also speak of dealing through a broker. That is another middleman.

Mr. MILTON: Yes, but not for canned peaches.

Mr. MANDZIUK: Well, what about tomatoes?

Mr. MILTON: Probably on tomatoes, yes.

Mr. MANDZIUK: Am I right in assuming that if the markup to the first middleman, the processor, is 5 per cent, and this follows right through to the retailer and is added on to the cost at a higher figure until it eventually reaches the retailer's shelf, it becomes fairly high?

Mr. MILTON: Yes.

Mr. MANDZIUK: Do you handle meats or meat products?

Mr. MILTON: No.

Mr. MANDZIUK: You would be aware of the fact that processors in meats do not distribute their products to the wholesaler—they do it direct?

Mr. MILTON: Yes.

Mr. MANDZIUK: There is only one middleman there. We will have to ask the meat packers about that—it may be that they are the real culprits. But the number of handlers is a cause of it, in your opinion, is it not?

Mr. MILTON: I think it has to be, but I don't see how they can be eliminated. For example, going back to fresh tomatoes, we could not hope to deal directly with the tomato growers in Ontario. There has to be some central sales agency of some kind to make contact with buyers across Canada.

Mr. MANDZIUK: I am not trying to blame you, but I am trying to find out how many people handle this product. Would you not eliminate some of them if you handled more local products?

Mr. MILTON: No, in most cases we buy directly from a canner or processor or manufacturer. In the case of canned fruits or vegetables or juices, as I

outlined at the start, they go from the grower to the canner to ourselves to the retailer to the consumer.

Mr. MANDZIUK: Now, for another question: Are there new products appearing on the market all the time?

Mr. MILTON: Yes.

Mr. MANDZIUK: All right; it is the processor that cooks them up or makes them up?

Mr. MILTON: It certainly is not us.

Mr. MANDZIUK: What incentive does he give you to promote that product? Does he give you any incentive in price, and do you pass that on?

Mr. MILTON: Sometimes they do.

Mr. MANDZIUK: Any examples?

Mr. MILTON: Yes. I think there was a new cereal product came on the market not so long ago, and if I am not mistaken it carried 50 cents a case, which was what they call an introductory allowance. We passed that on to the retailer.

Mr. MANDZIUK: Did he pass it on to the consumer?

Mr. MILTON: I don't know. He could have and he should have.

Mr. MANDZIUK: Another question: You see a lot of detergents and the price on the box says reduced by 15 cents, 27 cents, 12 cents, 9 cents, etc. What is the idea of this? They have a suggested price, I suppose. Is this supposed to be an incentive or what is the object of it?

Mr. MILTON: Well, I would prefer not to speak on behalf of the manufacturers on that.

Mr. MANDZIUK: It is the manufacturer who stamps this reduction showing a certain amount?

Mr. MILTON: Yes.

Co-Chairman Senator CROLL: I suppose Mr. Mandziuk would like to know what it means to you, Mr. Milton. You are a consumer—an intelligent consumer. What does it mean to you? When we know that we will know what it means to the poor lady who comes in behind these romantic shelves. What does it mean to you?

Mr. MANDZIUK: Take Fab, for example.

Mr. MILTON: Well, to me personally it does not mean very much.

Mr. MANDZIUK: You get if for that much less too?

Mr. MILTON: Yes, if there is 24 cents a jar off Instant Coffee, for example, our cost is reduced accordingly and this is passed on to the retailer and then passed on to the consumer.

Mr. MANDZIUK: I have another more or less supplementary question. If, for example, a producer gets $100 for a quantity of tomatoes, and after everyone gets his fingers into the process from the producer to the consumer, what is this $100 worth of tomatoes worth at that stage?

Mr. MILTON: I could not answer that offhand.

Mr. MANDZIUK: It could be figured out, could it not?

Mr. MILTON: Yes.

Mr. MANDZIUK: Could you get that for the committee?

Mr. MILTON: Yes.

Mr. MANDZIUK: Take tomatoes, as an example.

Mr. MILTON: In what final form, fresh tomatoes, do you mean?

Mr. MANDZIUK: No, canned.

Mr. MILTON: I could not give you those figures. You will have to ask the canner.

Mr. MANDZIUK: You will have to ask the canner; you will have to ask the distributor—like yourself?

Mr. MILTON: Yes.

Mr. MANDZIUK: And the retailer?

Mr. MILTON: Yes.

Mr. MANDZIUK: And the broker, and the carrier—the trucker.

Co-Chairman Senator CROLL: We are going to have Heinz here next week, the canners the week after, and the packers the week after that; and we are going to do a lot of addition ourselves.

Mr. MANDZIUK: You allow 5 per cent profit to the processor, and you add on 5 per cent profit, but you do not add it on to the same figure as the processor does, so it looks small, but 5 and 5 and 5 is always added on; it is just like compound interest, and in the final analysis, percentagewise, that gets pretty high.

Co-Chairman Senator CROLL: Senator O'Leary?

Senator O'LEARY (*Antigonish-Guysborough*): Thank you, Mr. Chairman.

My first question concerns subsidiaries and return on investment, and I think I will leave that to Mr. Urie; he will probably want to question on that.

I wanted to make a comment for the record, first, with respect to a question Mr. Allmand asked in connection with the Maritime Co-Operative Services in Moncton and the co-op retail outlets. I think you would agree that most of the major co-operative retail outlets are members of the Maritime Co-Operative Services. I realize they also purchase supplies from independent wholesalers—is that not correct?

Mr. HAMM: Yes, that would be correct, sir.

Senator O'LEARY (*Antigonish-Guysborough*): The cash and carry outlets that you referred to, where they receive a 2 to 3 per cent discount, do they pick up these goods at your warehouses, or do you have delivery for them—are they in the immediate area?

Mr. HAMM: For the most part they are in the immediate area, and they call and pick up their own orders and pass through the check-out, so to speak. It is more like a check-out service at the wholesale level.

Co-Chairman Senator CROLL: No retail?

Mr. HAMM: No, it is strictly for retail accounts.

Senator O'LEARY (*Antigonish-Guysborough*): In the cases where you have done some financing for your outlets, in recent years—we will say, over the past three or four years—has there been a number of failures with respect to these that you have financed, that you have had to take over?

Mr. HAMM: Yes, we have had a few.

Senator O'LEARY (*Antigonish-Guysborough*): You have had a few?

Mr. HAMM: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): Would you consider the number large that had been going in recent years, or have they been remaining about the same as in previous years?

Mr. HAMM: No, in effect, we have been placed in a position of taking over accounts such as Save-Easy stores, particularly, the major group where the bulk of the financing would be involved. It would be three stores in the last four years.

Senator O'LEARY (*Antigonish-Guysborough*): This would be about average, then?

Mr. HAMM: We know that some are having difficulties and over a period of time it is hoped these difficulties would be overcome, and there is no reason for us to become involved in taking them over.

Senator O'LEARY (*Antigonish-Guysborough*): I think it was Mr. McCutcheon who asked a question with respect to the cost of your landed goods—for example, that you bring in from Ontario—the cost to the Maritimes. You said, and correctly so, that there was an increased cost here, and the only way you could absorb this was in a lower net margin because it was an increase in your expenditures. I know he was trying to compare, for example, whether or not the consumer, as a result, paid more in the Maritimes for his food products than he did in Ontario. I think you explained it pretty well, but I would suggest, if I may, you were referring basically to a considerable line of packaged, canned goods, and so on, that are imported from Ontario. I believe you will find they sell for a lesser price in Ontario stores, here in Ottawa—though Ottawa is not a very good example.

As a Nova Scotian, I can tell you that prices compare quite favourably in places in Nova Scotia with prices in the City of Ottawa. Although I realize, and you pointed out, that your advertising, one-tenth of 1 per cent, was rather an insignificant figure when compared to some of those that have been presented to us by other witnesses, I just wondered if you would mention briefly the type of service you offered in this advertising to your affiliates or independents who are purchasing from you. Would this be paying for a portion of their advertising costs, for example, in newspaper, radio or television?

Mr. HAMM: No, I am sorry if there has been perhaps some misunderstanding. The comment I made was related primarily to any advertising by us as a wholesale house.

Senator O'LEARY (*Antigonish-Guysborough*): Not for any of your affiliates?

Mr. HAMM: No, not the advertising program on an affiliated basis.

Senator O'LEARY (*Antigonish-Guysborough*): I do not know what you mean by "general insurance program". I know the group insurance, but what about the "general insurance program"?

Mr. HAMM: Generally all, but excluding life—that is, fire and theft, and public liability insurance we make available to our stores. In fact, we recommend that they do buy insurance through us in order to keep themselves properly covered, because we do endeavour to watch particularly the major stores and see they are maintaining proper coverage.

Senator O'LEARY (*Antigonish-Guysborough*): But you are not in the insurance business as such?

Mr. HAMM: No.

Senator O'LEARY (*Antigonish-Guysborough*): Senator Carter inquired about warehousing, and I want to take this specific case of the warehousemen. We have had some startling figures here from some previous companies with respect to what was indicated by them as a major increase in wages to warehousemen in recent years. According to the figures you supplied here, there seems to be a fair consistency in relation to your sales and your wages by your volume, and, I must say, you are very honest in the way you present this, that your increase in sales has taken care of your almost corresponding increase in expenses.

Mr. HAMM: That is correct, on a ratio basis.

Senator O'LEARY (*Antigonish-Guysborough*): So you would not single out and say, in your instance, the warehouseman, by comparison with others in

your employ—that his wages had gone up much more than any of the other groups in recent years?

Mr. HAMM: You are referring to other groups within our own company?

Senator O'LEARY (*Antigonish-Guysborough*): No, the other witnesses that we have heard.

Co-Chairman Senator CROLL: Of course, he would not know about them.

Senator O'LEARY (*Antigonish-Guysborough*): No, but I just mentioned this fact and pointed out that others told us, and it looked as though the wages of the warehousemen really increased appreciably much more so, in proportion to their other expenses. This has not been your experience?

Mr. HAMM: No, the ratio has remained consistent because of the effect of the volume increase.

Senator O'LEARY (*Antigonish-Guysborough*): On page 5 in your last paragraph you start off by saying, "We have enjoyed a very low rate of turnover." "Turnover," to me, means one thing. Are you referring to inventory?

Mr. HAMM: No.

Senator O'LEARY (*Antigonish-Guysborough*): I did not think so.

Mr. HAMM: I almost commented on that when reading it. I am actually dealing with personnel turnover.

Co-Chairman Senator CROLL: Yes, I thought that.

Senator O'LEARY (*Antigonish-Guysborough*): The other would be rather contradictory.

Fringe benefits—three weeks vacation for senior employees. How do you classify "senior employees"?

Mr. HAMM: Fifteen years' service and over.

Senator O'LEARY (*Antigonish-Guysborough*): And what would the newer employee get, say of one to two years—do you have a sliding scale?

Mr. HAMM: Yes, sliding to the extent that anyone with six months and over—that is, between six months and twelve months—would receive one week. Perhaps I should qualify that a bit and say that we have altered that to provide that at six months' service you qualify for one week. Any additional months you accumulate between then and twelve months would add another day, so you could conceivably, after eleven months have 13 days, say, coming to you. Then, it goes to two weeks for one year and over.

Senator O'LEARY (*Antigonish-Guysborough*): With respect to your net profits as a percentage of volume over the years from 1965 to 1966 the trend is very consistent, but I think it is rather significant to point out that it is an average of approximately one per cent—that is, one per cent at the wholesale level. As a result of the inquiries of this committee, and from what we have read in the news media during these last few days, we have learned that a net profit figure of one per cent is about the average for the American retailer, whereas the average for the Canadian retailer is running at approximately 2 per cent.

I must admit that unfortunately many consumers seem to have misinterpreted this. As recently as last evening a couple of my friends mentioned to me that we were paying twice as much for our food as they were in the United States.

I would like you to comment on this. It seems to be pretty well established that the net margin of the average retailer in the United States is half of the net margin of the Canadian retailer. Do you see any specific reason for this that you would like to mention? I know that this is perhaps not a fair question to put to you because you are not in the retail business, but I am asking you to comment on it from your general knowledge of the business as a wholesaler.

Mr. HAMM: I will qualify my answer by saying that it is certainly not factual, but I would suppose that the American supermarkets have higher operating costs. I am just assuming that this would be so. On the other hand, I believe that the information in the trade journals indicates that the gross margins enjoyed by the American supermarkets are higher than those of the Canadian counterparts, but here again I am speaking from Maritime experience. It may be that they compare favourably with those of the rest of Canada.

Senator O'LEARY (*Antigonish-Guysborough*): I am not trying to put words in your mouth, but would you suggest that generally and overall volume and competition might be the two most important factors?

Mr. HAMM: They could very well be—the competition.

Senator O'LEARY (*Antigonish-Guysborough*): In your list of the three expenditures as a ratio of sales, interest shows the most noticeable increase. You indicate that it has been growing constantly since 1961. Depreciation has remained fairly static, as has also municipal taxes. Other witnesses have indicated that the major increase has been in municipal taxes—that is, as a ratio to sales dollars. I would not want anybody to get the impression that our municipal taxes in the Maritimes have not increased appreciably over recent years.

Co-Chairman Senator CROLL: I should have thought you would have bragged about it, senator.

Senator O'LEARY (*Antigonish-Guysborough*): No, and I have my reasons, Mr. Chairman.

Mr. HAMM: I think this points out that the dollar cost of municipal taxes has gone up because our plant and equipment is the same, or relatively the same, in 1966 as in 1960 for taxation purposes. So, the dollar amount of taxation is up in relation to sales. It is just that the ratio has remained constant.

Senator O'LEARY (*Antigonish-Guysborough*): In your overall figures you have not dealt with absolute dollars? You have just taken dollars as such?

Mr. HAMM: In the figures I mentioned earlier, I think you will appreciate there will be—

Senator O'LEARY (*Antigonish-Guysborough*): Yes, I thought that that mgh be the answer. I have one final question. I am interested in the point that Senator Carter raised with respect to the Island of Cape Breton being excluded. It is excluded, and you have made no entry into that industrial market, for example, in the towns of Sydney and Glace Bay, and so on? You indicated that recently you have made some move into the area of Port Hawkesbury. Would I be correct in assuming that the new industrial growth in that area has caused little interest on your part?

Mr. HAMM: No, that is not the reason for the statement. Actually, I think you have misinterpreted it a bit. One of our branch operations at New Glasgow, which we incorporated with the rest of our operation in about 1954—I am not certain of the year—did operate a bit further into Cape Breton, moving up the east coast and part way into Port Hood and Inverness.

Senator O'LEARY (*Antigonish-Guysborough*): May I ask you which company you are referring to?

Mr. HAMM: R. MacGregor and Sons Limited. This company was not doing a great deal of business there because of the competition from Sydney and Glace Bay wholesalers in the area. We thought, instead of going to the expense of trying to service a large volume level it would be more tactful for us to withdraw. It is a very competitive area.

Senator O'LEARY (*Antigonish-Guysborough*): But you did not enter into any agreement with any Cape Breton wholesaler that you would not enter that picture?

Mr. HAMM: No, not at all.

Co-Chairman Senator CROLL: We made a request for some wholesale prices for the years 1960 to 1966, and I have a list here of 45 commodities showing the percentage increase in respect of each of them. I will place it on the record because it is very interesting. There is also a list of comparative prices for fruits and vegetables for mid-August 1966 and mid-October 1966. There is no point in my reading this, but I suggest that the members of the committee take a look at it. It contains some interesting figures, and it will give you some idea of what is going on.

(*See Exhibit "A" following this text.*)

Mr. URIE: Mr. Hamm, I would like for a moment to examine the corporate structure of your company, if I may. Is Atlantic Wholesalers Limited a public or private company?

Mr. HAMM: A public company.

Mr. URIE: Its shares are listed on the exchange?

Mr. Hamm: No, they are not.

Mr. URIE: Who are the shareholders? Who is the controlling shareholder?

Mr. HAMM: The controlling shareholder on the corporate list, to my knowledge, is Harbour Investments Limited.

Mr. URIE: Who are Harbour Investments Limited, and where do they come from?

Mr. HAMM: It is a holding company. The head office is in Saint John.

Mr. URIE: What percentage of your stock does it hold?

Mr. HAMM: I could not give an accurate answer to that at the moment. I could provide the shareholders' corporate list, if the committee would wish it.

Mr. URIE: I wonder if you would do that because we would like to see it.

Mr. HAMM: Yes.

Co-Chairman Senator CROLL: Are you asking for no other names?

Mr. URIE: Could you give us the names of some other principal shareholders, other than Harbour Investments Limited?

Mr. HAMM: No, I could not.

Co-Chairman Senator CROLL: Who is Harbour Investments?

Mr. Urie: It is a holding company. Who are the principals behind that?

Mr. HAMM: I could'nt really answer that; I don't know with accuracy who they are.

Mr. URIE: What is the relationship of your company with Foodwide of Canada Limited?

Mr. HAMM: Other than being affiliated with Foodwide through the Red and White franchise and in volume buying, that would be about all—volume buying, and services which—

Mr. URIE: What is Foodwide of Canada Limited?

Mr. HAMM: It is an association. It was formerly Red and White Corporation. I think there is a brief that may be of interest in this respect going back to the formation of Red and White groups, with a voluntary group concept in 1926, and a headquarters for franchising wholesalers to sponsor Red and White groups was subsequently established in Chicago, and the Toronto office to the best of my knowledge was formed following that—as a branch of the Chicago

organization. Similar organizations are Independent Grocers Alliance—and Clover Farm.

Mr. URIE: Would it be fair to say that Foodwide of Canada Limited is the firm which allots Red and White franchise areas to wholesalers within Canada?

Mr. HAMM: Yes, that is correct.

Mr. URIE: Now, does Foodwide of Canada Limited own any shares or stock in your company?

Mr. HAMM: No, not to my knowledge.

Mr. URIE: What is the Red and White franchise area granted to your company by Foodwide of Canada?

Mr. HAMM: I think it is mentioned in my brief; the three provincial areas, Nova Scotia, Prince Edward Island and New Brunswick, with the exception of the Cape Breton area.

Mr. URIE: Now, the other members, as I understand it from the article I have here, are Kelly, Douglas, Vancouver; W. H. Malkin Limited, Vancouver; Westfair Foods Limited, Winnipeg; National Grocers of Toronto; Dealers' Supply Company Limited, Granby, Quebec; L. H. Chernin, Glace Bay, Nova Scotia; and yourself. Is that correct, to your knowledge?

Mr. HAMM: Yes.

Mr URIE: And the President of that organization is Mr. E. S. Cooper of Westfair Foods, is that correct?

Mr. HAMM: Yes.

Mr. URIE: Who appeared before us for Western Grocers?

Mr. HAMM: Yes.

Mr. URIE: You pay a fee, is it an annual fee, to Foodwide?

Mr. HAMM: No.

Mr. URIE: No fee for the franchise rights?

Mr. HAMM: No, there is none.

Mr. URIE: Was there an initial fee you had to pay?

Mr. HAMM: Well I can't answer that. The company received its Red and White franchise, I believe, in 1948.

Mr. URIE: That is, your company?

Mr. HAMM: Yes. At which time I have no idea—

Mr. URIE: What function do Foodwide perform for your organization?

Mr. HAMM: I think possibly Mr. Milton can answer part of that because he is involved to some extent in the merchandising, or at least in the buying end of it; but as far as the group, the Red and White group particularly, and Lucky Dollar, they do provide promotional material and advertising material for these groups; and in addition to that they do act as a broker for purchasing by volume. Is there anything further you can add, Mr. Milton?

Mr. MILTON: No.

Mr. URIE: What is the volume purchasing they do? What do they buy for you, that is, you buy from them presumably, isn't that right?

Mr. HAMM: Yes, in a way.

Mr. MILTON: They act on our behalf in dealing with canning companies and store equipment, manufacturers and—

Mr. URIE: What do you pay them?

Mr. MILTON: Well, they get presumably a brokerage the same as any other brokerage house.

Mr. URIE: Have you any idea what that brokerage fee is? In other words, they are not in business for the good of their health, they are getting some money from some source to provide the services which they are rendering for you. Have you any idea what in your case at least you are paying for those services?

Mr. MILTON: No, but I would suppose it is the usual fee that any other broker charges for similar services.

Mr. URIE: What is the usual fee?

Mr. MILTON: I can't tell you that.

Mr. URIE: Could you find that out, please?

Mr. MILTON: Yes, I could.

Co-Chairman Senator CROLL: I am becoming a little perplexed here, that the two top officials can come here from the company and cannot give us this information. Someone has to know what fees they pay or who controls the company. I am finding difficulty in following that. We asked a question about who controls the company, and you mentioned Harbour Investments. We asked who is Harbour Investments, and Mr. Hamm says he does not know. It is very hard to understand why you do not know who controls the company. Surely you must have some idea of somebody who does. It is not just a seal or a corporate seal. Some face must appear there, and that is all we want to know.

Senator O'LEARY (*Antigonish-Guysborough*): Perhaps, Mr. Chairman, it would be fair to ask if they are not getting a direct charge for this service by invoice or otherwise.

Mr. MILTON: We do, but I can't tell you what the percentage is.

Mr. URIE: What do you buy?

Mr. MILTON: We buy canned fruit and vegetables and store equipment.

Mr. URIE: And you actually buy that from them and they invoice you?

Mr. MILTON: Yes. I do not know what their profit is.

Mr. URIE: You don't know what their profit is?

Mr. MILTON: No.

Senator O'LEARY (*Antigonish-Guysborough*): There is no direct charge in the cost of goods, and you don't know what it is?

Mr. MILTON: No.

Co-Chairman Senator CROLL: Both IGA. and the Western group paid one-fourteenth of one per cent for that same service and I have been waiting for the same answer. He says not.

Mr. URIE: You said a moment ago they are providing promotional and advertising material. Do they bill you for that?

Mr. MILTON: Yes.

Mr. URIE: Do they bill you on an annual basis or for particular material?

Mr. MILTON: No, when we get it.

Mr. URIE: Is any member of your organization on the board of directors of Foodwide?

Mr. HAMM: Yes, I am.

Mr. URIE: Then you know what the net profits are in a year, or have you any idea?

Mr. HAMM: No. I have received their statements, of course, but I have no accurate recollection of the figures.

Mr. URIE: Do you have any of these statements with you?

Mr. HAMM: No, I haven't.

Mr. URIE: Would it be possible to acquire from you financial statements from Foodwide for the last five years?

Mr. HAMM: I can't say I would have them back that far because I have only been on the board since the previous president—since I took over.

Co-Chairman Senator CROLL: How long is that?

Mr. HAMM: Four years.

Co-Chairman Senator CROLL: Give it to us for four years, then.

Mr. McCUTCHEON: Mr. Chairman, I have a supplementary. Will you permit me, Mr. Urie? Foodwide acts as a brokerage agency in the Ontario market, shall we say, for canned produce. It is a pretty big organization. Do I understand you to say that, for example, National Grocers belong to that organization?

Mr. HAMM: Yes.

Mr. McCUTCHEON: We learned the other day that one of the huge chains in this country was interested in National Grocers. Can we take from what you are telling us that the produce that is sent through brokerage in the Province of Ontario, the Province of British Columbia, the Province of Nova Scotia, and all of the rest of them, through this monopoly buying that is established—that you in effect can directly or indirectly control the producer price? Because it would seem from what you have told us that probably about 75 per cent of the product that goes is controlled by this closely-knit group.

Mr. MILTON: I should like to make clear that a fairly small percentage of our canned goods goes through Foodwide. We buy much more from Canadian Canners and Libbys, or people like that. Foodwide is our contact with probably the smaller independent canning companies.

Mr. URIE: What percentage of the total purchases in canned goods during the year would you obtain from Foodwide?

Mr. MILTON: I do not know, but it is very small, I would say it is less than 10 per cent. It is mainly tomatoes and some corn.

Mr. URIE: Would you agree that in; those purchases there is an element of profit which accrues to the benefit of Foodwide, and an element of cost which arises as a result of that extra step in the sale, which the consumer must ultimately pay for?

Mr. MILTON: We have to buy these from someone and whether we buy them from Canadian Canners, with their built-in selling charges, or from another brokerage house, such as Van de Water Boyd or Cruickshank Guild, I would say it is the same as any other brokerage house.

Mr. URIE: It may be that this is the area which we should be exploring. What proportion of your total purchases in canned goods are made through brokerage houses rather than direct from the canners themselves?

Mr. MILTON: Again, I do not have these right at my fingertips. I would say it is less than 10 per cent, somewhere in the neighbourhood of 5 to 10 per cent.

Mr. URIE: Take the outside figure of 10 per cent?

Mr. MILTON: Perhaps you would like me to give you the reason. I think the larger corporations have their own selling organizations—salesmen, sales managers, district sales managers—and the smaller companies do not have them, so they have to sell through a broker. Someone has to perform that function. That is the reason for these brokers.

Mr. URIE: Would it be fair to say that the brokers handle only the small producers and centers, rather than the larger ones such as Canadian Packers or Libby's?

Mr. MILTON: Yes.

Mr. URIE: Do those in addition handle the canned goods of the major canning companies?

Mr. MILTON: No, they have their own sales organizations.

Mr. URIE: Are the prices for the canned goods which you obtain from the brokers comparable to the prices which you obtain from the canners direct?

Mr. MILTON: In most cases they are lower, I would say.

Mr. URIE: Which are lower?

Mr. MILTON: The one through brokerage houses.

Mr. URIE: If that is the case, why do you not buy larger quantities through the lower price?

Mr. MILTON: Because there is public consumer demand for the advertised brand, such as Aylmer, Libby, Del Monte and Bright's and so on.

Mr. URIE: Are you not able, during the course of your negotiation for prices, and the mass buying which you can generate, to negotiate the price down lower, because of the competition and the smaller independence of the broker?

Mr. MILTON: No, sir.

Mr. URIE: You have tried?

Mr. MILTON: It is not legal.

Mr. URIE: To negotiate?

Mr. MILTON: No.

Mr. URIE: That is a new concept. I always thought it was legal to be able to negotiate prices with anybody, and that you could use as a basis the prices that you get from someone else?

Mr. MILTON: The manufacturers have to give everyone the same cost, according to the new combines law these last several years.

Mr. URIE: For the same quantities?

Mr. MILTON: Yes.

Mr. URIE: Let us explore another area. What subsidiaries does your company own?

Mr. HAMM: Operating subsidiaries?

Mr. URIE: Any kind of subsidiaries. First, deal with wholly-owned subsidiaries. Have you any wholly-owned subsidiaries?

Mr. HAMM: Yes. R. McGregor and Son Limited, Glasgow, N.S.; that is strictly a distribution warehouse. Also, Fillmore's Moncton, N.B.

Mr. URIE: To get back to McGregor, it is a wholesaler, too, is it?

Mr. HAMM: Yes.

Mr. URIE: Is it in competition with one of your own branches down there? Do you own any branches in that same locality?

Mr. HAMM: The nearest one is in Truro.

Mr. URIE: Would McGregor be in competition with them?

Mr. HAMM: Not to any great extent.

Mr. URIE: Now, about Fillmore?

Mr. HAMM: They are in Moncton. That is also a wholesale outlet. There is also Kitchen Brothers Limited, Fredericton and Woodstock, N.B. They are also a wholesale outlet.

Mr. URIE: Again, with those last three, do you have any of your own warehouse service depots in competition with them, in the areas in which they operate?

Mr. HAMM: We do, with Fillmore's Limited in Moncton, yes. We have an Atlantic warehouse that has been there for many years.

Mr. URIE: Are they active competition or do you agree on your prices with each other?

Mr. HAMM: No, they are not. I answer the first question, they are not in active competition, except in outlying areas. In city areas generally, they have particular accounts, which are for the most part small accounts, serviced by the Fillmore Limited outlet. As to major accounts, because of its size—it is a very small warehouse—it is not capable of catering to any major retailers.

Mr. URIE: Have you any other subsidiaries?

Mr. HAMM: Operating subsidiaries, such as this?

A MEMBER: What is the name of the one in Truro, please?

Mr. HAMM: It is Atlantic.

Mr. URIE: Do you own any interest in food processors, meat processors, or fish processors?

Mr. HAMM: No.

Mr. URIE: Or ranches, farms, chicken ranches, or anything of that nature?

Mr. HAMM: No. We are strictly in distribution.

Mr. URIE: I might get into one other area. You have not provided us with any financial statements. All the other witnesses have produced financial statements for a period of years, generally from 1960 onwards. Do you have any with you?

Mr. HAMM: I have brought one complete set, sir, for filing.

Mr. URIE: Will you file it, please?

(*Document tabled.*)

Mr. URIE: Do they show the net profits?

Co-Chairman Senator CROLL: They show the net profits after taxes.

Mr. URIE: In your presentation, on page 9, you show your net profits as a percentage of return on investment. The next paragraph puzzles me and I would like you to explain it. It says:

> However, as this does not indicate total investment we have made adjustments to the "net worth" base by adding bonded indebtedness and bank loan with appropriate adjustment for divident in lieu of interest.

I am afraid I do not understand that, sir.

Mr. HAMM: I must admit the interpretation is perhaps more personal than anything. What I had in mind there is that we have a low capitalization and that we have endeavoured, fairly successfully, to maintain a reasonably good cash flow for our purposes through inventory turnover and utilizing of bank loans. We do a substantial amount of bank borrowing. We have not gone to the market, with the exception of bond issues and they are a very small amount. By showing that these funds had been made available in the share structure, through equity capital, eliminating the bank borrowing and the bonded indebtedness, we show there was of course a substantial increase in net worth, as I visualized it, for an investment. Then we have taken the interest factor out of our profit and loss statement, thus building up the net profit result. That is what I have meant, but may not have stated so well, when I mentioned dividends in lieu of interest. If it was in capital form or equity, there would be equally large interest payments that we have put out on bank loans, and bonded indebtedness which would come out of our profit and loss statement.

Mr. URIE: You have taken that interest factor out of profit loss, because you have apportioned it to dividends. Is that right?

Mr. HAMM: Yes. Then by applying the resulting profit, figure the return on investment against it.

Mr. URIE: I will go back to that a little later, Mr. Chairman.

Co-Chairman Senator CROLL: We will have Mr. Olson and then Dr. McGrand.

Mr. OLSON: Mr. Chairman, Mr. Hamm, on pages 3, 4 and 5 you talk about cash and carry outlets. You say that you have three. Are these profit making operations by themselves?

Mr. HAMM: Yes, they are. They are not major profit making outlets, however.

Mr. OLSON: But, in relation to the cost of operating these cash and carry outlets they do pay these operating costs plus a reasonable profit.

Mr. HAMM: Actually, it is difficult to answer that question purely because we do not maintain accounting records on this particular operation in the sense of a profit and loss statement. In effect the goods are billed through from the main warehouse to the cash and carry outlet at the selling price.

Mr. OLSON: But, in your opinion, do you believe that they do pay?

Mr. HAMM: Yes, they make a nominal profit after overhead, yes.

Mr. OLSON: You say on top of page 5 that, in addition to regular weekly advertised specials, the prices offered at the cash and carry outlets are approximately 2 to 3 per cent lower than conventional ex-warehouse prices. By comparing this to your gross margin, as seen on page 7, of the overall operation, then, you were operating these cash and carry outlets at about one half or a little less than one half of the gross margin that you use in the overall operation.

Now, if they are profitable and give a return by themselves, why do you not expand them?

Mr. HAMM: To go back to your first point on the one half of the gross as shown, this would not be entirely correct, because you are dealing with an average in the final gross, which is an average of our cost-plus accounts as compared with our general run of small independent trades, at which level we do receive a somewhat higher margin. This is the particular group that I am referring to when I make the comment of 2 and 3 per cent lower.

In other words, it is closer to between 7 and 8 per cent less approximately 2 to 3 per cent.

Mr. OLSON: In any case, you are operating them with at least a 20 to 35 per cent lower gross margin than what you referred to as conventional ex-warehouse prices. Why? What is there about this kind of operation that it will give you this substantially lower cost factor?

Mr. HAMM: Well, there are less services involved, for one thing. It is the cost of servicing that causes the difference.

Mr. OLSON: That is what I am trying to get at. How can you do it so much cheaper on the cash and carry basis?

Mr. HAMM: The cash and carry customers come to the cash and carry outlet and pick up their own order. They convey it to their own vehicle and they pay cash. They get the benefit of cash payment plus the fact that they assemble and take away their own orders.

Mr. OLSON: But your cost of assembling and packing, so that this customer can put it in his own vehicle, would not be any different from the rest of your operation, would it? In fact, it may be higher because you are dealing in small quantities.

Mr. HAMM: Well, no. In the cash and carry outlet I have said that the customer picks up his own orders.

Mr. OLSON: Yes, and these customers are retailers, are they not?

Mr. HAMM: Yes. And you have made reference to the retailer calling at the warehouse level and having the order assembled.

Mr. OLSON: Yes.

Mr. HAMM: For him.

Mr. OLSON: Yes.

Mr. HAMM: Well, of course—

Mr. OLSON: This order, I presume, is assembled, and whatever re-packing or whatever is necessary for him to do to convey it in his own vehicle is all done by your company, is it not?

Mr. HAMM: Yes, it is.

Mr. OLSON: Then, there would not be any lower cost factor involved in this so-called warehousing cost for the cash and carry than what you call conventional ex-warehouse distribution, would there?

Mr. HAMM: Yes, there would be.

Mr. OLSON: There is? Why?

Mr. HAMM: I have already mentioned that in the first place your customer, shall we say a call customer at our regular warehouse outlet, will go to the desk, have his order written, place his order there, and the order will go through the normal processes of accounting at the branch office level and then be passed out to the warehouse for assembling. Now, this means that the warehouse men must assemble that order. No doubt to some extent it breaks up the normal assembly order routine, and when the order has then been assembled and placed on the shipping floor it is then available for the customer to pick up.

At the other extreme, the cash and carry extreme, the customer would go into the cash and carry outlet, pick up his own cart, pick up his own order and pass through the cash register and check-out.

We have eliminated a number of things. We have eliminated some clerical work plus some warehouse assembly time, and there is also the fact that the customer pays cash.

Mr. OLSON: Yes, I understand that. But, by the way, in these cash and carry outlets do you sell less than case lots?

Mr. HAMM: Oh! yes.

Mr. OLSON: Would this not add to your costs?

Mr. HAMM: As far as we are concerned, the goods are handled and placed on the shelf in the case lot, with the case being opened, and the customer removes whatever his requirements are. We have not restricted it to case movement in our cash and carries. I realize that some cash and carries do this.

Mr. OLSON: I am amazed, or at least a little confused at this, Mr. Hamm, and I tell you for this reason: that, apparently, it is smaller lots that would be handled in this cash and carry; it is less than case lots, but would require an equal or a greater amount of re-packing to assemble the order and pack it so that a customer could take it away; it is certainly in smaller quantities, but yet you are able to sell it at 2 to 3 per cent lower than conventional ex-warehouse prices.

The only other thing involved here, it seems to me, is the transportation, and yet you are selling it at even a lower percentage level than what you claim you pay for transportation.

Mr. HAMM: Well, I think I am just a bit confused myself, because you have mentioned that we assemble these broken lots, so to speak. You mentioned the cost of our assembling them. But I have already stated that we do not assemble them. It is the retailer who does the assembling. He makes a choice and, when it

passes the cash register, he packs his own goods. So there is no cost involved there.

The retailer does all this himself, as opposed to the main warehouse operation where we would be obliged to assemble and to pack the goods.

Senator CARTER: It is wholesale self-service.

Mr. HAMM: That is a good expression, yes. It is wholesale self-service. As far as your point about wondering why we have not expanded into more of them, the three that we have are not high volume outlets by any stretch of the imagination. The volume varies in these three between 350,000 to 600,000. The one with the most volume is 650,000 and the one with the lowest volume is around 350,000.

To establish them in other areas, you are limited because of the density of potential small store customers in close proximity to this location. We have done analysis work at various branch points, and we have not felt it desirable to go ahead there.

Now, it could be that our decision is incorrect, but we do find that, in addition to less density or at least a lower number of retailers in the area of your warehouse, many of the smaller accounts in the outlying areas have a preference for delivery. It is more convenient to a lot of them to have these goods delivered to their door.

Mr. OLSON: I have one other question, Mr. Hamm. I would like to ask you about these voluntary groups that enter into these agreements. What I would like to know is what they volunteer? Do they agree to buy all their requirements from you?

Mr. HAMM: The wording, as I recall it, is that they agree to buy substantially all of the dry groceries and produce items which we are able to provide—"substantially all". If we cannot provide it, they are free to purchase these goods through other wholesale outlets.

Mr. OLSON: Do they also agree to adhere to your suggested retail prices?

Mr. HAMM: No, there is nothing whatever in any contract about suggested retail prices.

Mr. OLSON: Have you ever had a case where one retailer was selling one of your items or one of your personal brand names at a substantially lower price than another retailer?

Mr. HAMM: It is possible, yes.

Mr. OLSON: Any disciplinary action taken against them if you find this?

Mr. HAMM: Not that I can recall recently. We have supervisors making fairly regular visits to these stores. They make periodic visits to the shelves to see if there is consistency in their pricing, but it is not within their domain to tell the independent he must raise or lower his prices. It may be suggested, if they seem too high, that it would be desirable for him to lower them. If the price seems too low, it may be that the price is incorrectly calculated. But there is no pressure exerted on them with respect to suggested retail prices.

Mr. OLSON: It does not enter into any part of the agreement?

Mr. HAMM: No, it is very simply a service we give to these retailers so that they have guidance as to what prices are competitive.

Mr. OLSON: Have you noticed a larger volume of non-food items going through, first of all, your sales, and then also through the retailers that you serve? The reason I ask this is because I would like to know whether in your opinion there are more items getting into what is referred to as the "food basket" than in 1960 or 1963 or any other year? Do you handle a substantially larger number of non-food items now than you did in the recent past?

Mr. HAMM: I would say this is true both at the wholesale and retail level. I think it is true to say that at the wholesale level we handle more of this type of product. I have commented in some brief way on this particular part of the food purchase or so-called food purchase. There is an actual example of one customer who called on a store serviced by us, and this is a very recent one which has been checked out in this particular store. She was quite perturbed to find the cash register tab totalled $8.60. Feeling the cashier had possibly recorded her purchases incorrectly, she made the statement that she did not feel she had that much in groceries. The manager was asked to clear the register so that it could be put through again, and he suggested to the cashier that she put through the non-food items first and make a subtotal. This is one isolated incident that came to our attention. The subtotal for non-food items came to $6.40, and the balance of $2.20 was for food or perishables. This is an extraordinary case because we would not have too many like this. It rather surprised the consumer to find that non-food items can add up rapidly and can be considered as food purchases by them.

Mr. OLSON: Can you suggest or volunteer any percentage that this has amounted to as between food and non-food items—the increase I am talking about.

Mr. HAMM: No, we don't have any breakdown of our wholesale. You mean what the percentage increase might be?

Mr. OLSON: Well, Mr. Hamm, in your brief you have not shown any samples of prices, for example, for cereals, canned goods, tomatoes, cake mixes, canned milk or anything of that nature. Yet on pages 7 and 8 you show your gross margin result, and you go on to say that your gross margin results show relatively little change in the period under review, starting at 1960 at 7 per cent and varying slightly up to 1966 when it was 6.4 per cent. This would seem to indicate that the only increases you have put on your wholesale prices are pretty much the increases in your cost of these purchases. What I am wondering is have the retailers you serve increased their margin recently, as far as you know? That is in the last year or two.

Mr. HAMM: I can only go by the several retail store statements which pass through my hands. The gross profit results—and here again I cannot be factual, but reasonably close—for many of these stores have changed very little from 15 to 15½ per cent overall gross margin. There are a few who may possibly produce higher margins, but this could be brought about by product-mix, higher margins on perishable items, having a higher mix ratio to gross sales and this may cause the average to be higher. But for the general run of stores that have 65 per cent of their mix in groceries, and 25 per cent in meat and 10 per cent in produce, the average gross margin has been very close to 15 or 15½ per cent over the period.

Mr. OLSON: Over the six-year period?

Mr. HAMM: I cannot say that.

Mr. OLSON: Which period are you talking about?

Mr. HAMM: Over the past year. We do quarterly statements for many of the voluntary stores.

Mr. OLSON: But is this 15 per cent gross margin the same in 1966 as it was, in your view, in 1963 or 1960, or has there been a change in the gross margin?

Mr. HAMM: The retail level in 1960—I cannot answer for that. I do feel that the results which we see are not appreciably different over the past three to four years.

Mr. OLSON: Well, is the rate then essentially the same over the past three years? Is the wholesaler taking essentially the same gross margin? If that is the

case, we have to get back further to the processing and distribution machinery to find out why food has gone up 7.3 per cent—that is the index on this commodity. We have to find out how it went to somewhere over 7 per cent in the last year. As far as you can observe it is not because the retailer is taking a larger gross or because the wholesaler is taking a larger gross?

Mr. HAMM: We are speaking purely from observation of several store statements over the last three or four years. I cannot speak with absolute accuracy on that, but my feeling is that the gross is approximately the same or within a very close margin of difference.

Mr. OLSON: Is there any significant change in the way or manner of processing food during the past year which would add substantially, and when I talk about "substantially" I am talking about 5 to 7 per cent, to the cost of processing this food into the product the housewife wants to buy?

Mr. HAMM: You are referring back to the manufacturers' level, or any other level?

Mr. OLSON: Take any item you like. Take cereals, canned food, cake mixes, or anything. Is there any reason you can see why the cost of producing this, from the processor's point of view—has that changed from 1965 to 1966? Does it cost more to produce a box of cereal or a can of tomatoes or a box of cake mix this year than it did last year?

Mr. HAMM: The only thing I can refer to is the list of product prices we have submitted, based on the cost to us; but I would be in no position to answer for any increase, or the reason for any increased costs at the manufacturer's end, or even back of that.

Mr. OLSON: Has the wholesale price index for food gone up by 7 per cent in 1966 over 1965, do you know? Have you done any calculation on the items you buy, to see if you are paying an average of 5 to 7 per cent more for food items than you were a year ago?

Mr. HAMM: Yes. I regret this was not included in our brief. We did not have the information in sufficient time, but we have taken a representative group of 45 grocery items showing the wholesale cost for the years 1960 to 1966, inclusive, on each item.

The total cost, by years, for all the items is—I will not go through each year, but in 1960 it was $336, and in 1966, $397.50. That is for exactly the same group of items—the same, identical items. That difference in cost is, then, $61.50, and represents an increase of 18.29 per cent in this representative group and in that period.

Mr. OLSON: That percentage is based on the $336 or the 1960 price?

Mr. HAMM: Yes, 18 per cent. The cost for the same items in 1966 is 18 per cent higher than for the same items in 1960.

Mr. OLSON: Have you that figure between 1965 and 1966?

Mr. HAMM: 1965 and 1966, yes. The only year in this period showing a decrease from the preceding year is 1962, 1.79 per cent.

The others are as follows:

1961 over 1960	0.78 per cent
1963 over 1962	3.08 per cent
1964 over 1963	6.99 per cent
1965 over 1964	4.84 per cent
1966 over 1965	3.34 per cent

Mr. OLSON: Mr. Chairman, there is a number of other questions that arise out of this answer, but I think I will pass.

Co-Chairman Senator CROLL: Mr. Urie, do you have anything further?

Mr. URIE: Yes, I have. It arises out of the question that was asked earlier, I think, by Senator Carter.

If I am a canner or a processor of any kind, and I want to have a new product marketed, one of the places I am going to market it is through your organization. In order for me to persuade you to put my goods on your shelves, what is the policy of your company, and what do you charge me, or what sort of deal do you make with me in order that I have that privilege?

Mr. MILTON: We do not charge you anything. We decide whether we have the room for the product, and if it is a new product that fills a need. If it is not, we try to avoid handling it until such time as the advertising campaign and the promotional activities you put behind it create the consumer demand for it; otherwise we do not want it—unless it is some new and useful product we feel is in the consumer's interest.

Mr. URIE: Some information has been given to me, Mr. Milton, which would indicate that numbers of processors, producers, canners, etcetera, in order to get their goods on the shelves, have had to pay actual cash outlays to certain distribution organizations in order effectively to get their goods sold by those organizations. Has that policy ever been followed by your company?

Mr. MILTON: No, sir.

Mr. URIE: Have you ever made any demands of that nature?

Mr. MILTON: No, never.

Mr. URIE: In your statement of income, is there any element in that income, of any kind whatsoever, arising by reason of deals of this kind—money paid to you for the privilege of getting you to sell a certain type of goods?

Mr. MILTON: To list products, no.

Mr. URIE: Are there any indirect deals made whereby you get so much off per case, or where you are given free cases?

Mr. MILTON: They are made to us, along with everyone else. Yes, it is part of many manufacturers' regular promotional program. I do not know what basis they use, but occasionally they come out with one case free with 10, or something like that.

Mr. URIE: Have you any figures in your possession which would show the number of free cases of goods which you obtained during the year 1966, or discounts off regular prices?

Mr. MILTON: No, I have not.

Mr. URIE: You have not got any of that information?

Mr. MILTON: No.

Mr. URIE: Is it possible to obtain such information?

Mr. MILTON: It would be a tremendous undertaking for us to go back through everything and try to find out how many free goods were given to us. I suppose it could be done.

Mr. URIE: Then I will approach another end of it. On pages 3 and 12 in your presentation you mentioned advertising. On page 3 you say:

> We operate a printing and advertising department, whose main efforts are directed towards advertising and promotional material for the affiliated groups, but unaffiliated retailers also make use of the services offered by this department.

On the other hand, on page 12 you say that your advertising is less than one-tenth of 1 per cent.

Mr. HAMM: Mr. Urie, if I might interrupt: I tried to explain briefly, but perhaps unsuccessfully, that the interpretation there, possibly my own wrong interpretation, was not relating to this particular statement on advertising. I

had in mind this was related to the advertising we actually did for a wholesaler—that is, institutional advertising, or things of this nature, for Atlantic wholesalers as such, but that statement has no relationship to page 3.

Mr. URIE: Do you have any figures which would show the total cost of advertising?

Mr. HAMM: By that you would mean the total amount of money expended for group advertising purposes?

Mr. URIE: Right.

Mr. HAMM: No, we do not have any.

Mr. URIE: Gross and net, I may say. You do not have those with you?

Mr. HAMM: No, but I think this information could be obtained and submitted.

Co-Chairman Senator CROLL: Well, just a minute. Question No. 4 was:

> Total advertising expenses in relation to gross sales for the six-year period 1960-65.

That was a question you were sent, a memorandum as to what we would like to discuss, and that was one of them.

Mr. HAMM: The way in which I interpreted this question was wholesale sales. The advertising we are referring to was really directed to retail. Of course, it does help the wholesale sales.

Mr. URIE: Do your retailers pay for some of the advertising you do on their behalf?

Mr. HAMM: Yes.

Mr. URIE: They pay?

Mr. HAMM: Yes.

Mr. URIE: And some of your suppliers also pay for the advertising you do on their goods, is that right?

Mr. HAMM: Yes.

Mr. URIE: Could you provide us with figures for the last five years showing the gross amount of your advertising, the payments from retailers, and the payments made to you by suppliers, so that there will be the gross amounts and the net amounts?

Co-Chairman Senator CROLL: You understand that Mr. Urie wants those figures in amounts?

Mr. HAMM: Yes, I appreciate that, but I hope most of them will be accurately available. I know they will be for the last two or three years. Did you say you wanted them for five years, Mr. Urie?

Mr. URIE: Yes, please. I have just one further line of questioning. On page 7 of your brief you say:

> The voluntary group store grocery purchases are on a cost plus fee arrangement and utilize preprinted order catalogues. This arrangement averages $4\frac{1}{2}$ to 5 per cent mark-up on cost.

Is this $4\frac{1}{2}$ to 5 per cent added to the cost of the goods to your retailer, or is it a $4\frac{1}{2}$ to 5 per cent mark-up on his total purchases during the year for the services that you render to him, or how is this—

Mr. HAMM: No, it is added to catalogue order that is assembled—to any particular order that is assembled.

Mr. URIE: It is added to the invoice price of an order?

Mr. HAMM: Yes, or based on a weekly order. It could vary. Perhaps I should qualify that slightly by saying that the buying fee is based on certain volume categories on a graduated scale, and it may range from $5\frac{1}{2}$ per cent to

$3\frac{1}{2}$ per cent. We have found from our accounting consolidations on this particular aspect of the business that it averages slightly over $4\frac{1}{2}$ per cent.

Mr. URIE: Is that a discount?

Mr. HAMM: That is a mark-up. The fee may be calculated at the end of the week, and a separate charge made for it based on the total week's purchases, because a lot of the accounts do have their basic catalogue order plus a fill-in order, and this goes to determine their volume category.

Mr. URIE: So on your invoice there should be actually a separate item for your fee, which averages $4\frac{1}{2}$ per cent?

Mr. HAMM: Yes.

Mr. URIE: That is all I wish to know. Is this provided for in your franchise agreement with your retailer?

Mr. HAMM: Yes, this is all cleared with the stores before they—

Mr. URIE: Could you file with us as well a copy of your franchise agreement with your dealers?

Mr. HAMM: Yes.

Mr. URIE: That is, a sample.

Mr. HAMM: Yes.

Mr. URIE: I have just one further question. You also stated somewhere in your brief that you have rendered rather extensive financial assistance to your retailers to the extent of some $1.5 million. What do you charge the retailers for this service?

Mr. HAMM: Our practice in the past five years has been to charge interest at the rate of one per cent over the prime commercial bank rate. This one per cent is considered to be a modest amount to take care of the accounting services that are necessary for monthly billings and record-keeping purposes.

Mr. URIE: So it is roughly 7 per cent per annum?

Mr. HAMM: At the present time. It has been $6\frac{1}{4}$ per cent when the bank rate was $5\frac{1}{4}$ per cent.

Mr. URIE: Is there any finder's fee or anything of that nature? Is any fee charged initially to the retailer?

Mr. HAMM: No, there is not.

Mr. URIE: It is a straight 7 per cent?

Mr. HAMM: Yes, a straight 7 per cent, and no restriction on repayment. We welcome repayment at any time.

Co-Chairman Senator CROLL: Who doesn't?

Mr. URIE: Is that shown on your consolidated statement of accounts as gross profit from that operation? I am talking about the income you receive from loans.

Mr. HAMM: No, it is not shown in the gross. It is shown—well, I do not have a statement here.

Mr. URIE: Would that be under "Interest on Loans and Mortgages"?

Mr. HAMM: Yes, that is the figure.

Mr. URIE: That figure for last year was $75,000. I think that is all, Mr. Chairman.

Mr. OLSON: Mr. Hamm, you said that you took 45 selected items and made a comparison of their prices in order to find out how much their prices had advanced. Is this what you paid for those 45 items, or what you sold them for?

Mr. HAMM: This is the landed cost.

Mr. OLSON: I wonder if you could explain this to me—I want to quote you some figures because they are a little confusing. For the year 1963 over 1964 you show an increase of 6.99 per cent in your costs; is that right?

Mr. MILTON: That is correct.

Mr. OLSON: And yet the figures that have been provided us in respect of the Consumer Price Index by the D.B.S. for this period I see that only a 1.6 per cent increase is indicated. That is, the D.B.S. show an increase in 1964 over 1963 of 1.6 per cent, and yet you show an increase of 6.99 per cent on 45 items. I wonder why there is so much difference?

If we go to 1966 over 1965 we see that you show an increase of 3.34 per cent, and the D.B.S. figures show an increase of 7.5 per cent.

What is wrong with these figures? Obviously, something is wrong. It may be that the 45 items you have selected are not the same as those on which the D.B.S. took price samplings.

Mr. MILTON: I think that that is where the differential is. We have picked 45 items here out of something like 4,000 items that we carry in stock.

Mr. OLSON: But these 45 items are substantial sellers, are they not?

Mr. MILTON: Yes.

Mr. OLSON: The D.B.S. figures show that for 1964 over 1963 there is an increase of 6.99 per cent, and yet there is only an increase of 1.6 per cent in so far as the retail price is concerned, according to D.B.S., on the whole food component. Does that mean that the wholesalers and retailers absorbed some of that and did not pass it on to the consumer? Would that be the reason why you took nearly 7 per cent more, and yet the food prices went up only by 1.6 per cent?

Mr. MILTON: No.

Mr. OLSON: Then, why is that?

Mr. MILTON: I do not know. Again, I would say that this is a fairly small representative sampling of the items in comparison to the total.

Mr. OLSON: The D.B.S. sampling is pretty small too. They took all of the meats, six items in cereal and bakery products, and then they took milk, sugar and sweets and about ten fruits and about 15 vegetable items, and then miscellaneous groceries, and so on.

Mr. MILTON: This list of ours does not include any fruit, vegetables or meat. It is all dry groceries.

Mr. OLSON: All dry groceries?

Mr. MILTON: Yes.

Mr. OLSON: When you get to 1966 over 1965 you claim that your costs advanced by only 3.34 per cent. The D.B.S. says that the retail price went up 7.5 per cent, or more than twice as much as your increase. Have you any explanation as to why the retailer would pay more than twice as much, expressed as a percentage, as the increase you paid for these items?

What I am trying to get at, Mr. Chairman and Mr. Hamm, is whether we can make any valid comparison between the figures you have presented and the figures as to the overall cost of food that the D.B.S. has presented. There is such a contradiction in the results that I am wondering whether they are of any value to us.

Mr. HAMM: I do not feel that the calculations we have given are incorrect.

Mr. OLSON: I did not say that. But, for the purposes of comparison, have you compared like things?

Mr. HAMM: This is what I was leading up to. If we knew what actual items the D.B.S. used, and not just the product groupings—if we could know the

brands and the sizes, et cetera—then we may discover that there is a continuity between the two sets of figures.

Co-Chairman Senator CROLL: I have one of these forms for you. Will you fill that in and send it back to us? The other retailers have done this.

Mr. HAMM: That is, with respect to any of the items we handle?

Co-Chairman Senator CROLL: Yes, with respect to any of the items you handle.

Mr. HAMM: Yes, we shall be happy to do that.

Mr. OLSON: Mr. Chairman, is that essentially a list of items that D.B.S. use?

Co-Chairman Senator CROLL: It is the list we have been using, Mr. Olson, and we have asked the retailers and also the wholesalers to provide it. We think it contains almost everything. Meat, chicken and biscuits are listed, and we think it is a fair reflection. The others are all filling it in in the same way, so that we can take a look at all of them and compare them. That is what you wanted, is it not?

Mr. OLSON: Yes, it is; but I was also wondering if we should not ask Mr. Hamm to do a little calculation in so far as his costs are concerned, both landing cost and selling price, on exactly the same items that D.B.S. use.

Co-Chairman Senator CROLL: You know what D.B.S. uses for making up the index, do you not, Mr. Hamm?

Mr. HAMM: Yes, and I will obtain that.

Co-Chairman Senator CROLL: You can do that on the grocery items, can you not, in addition?

Mr. HAMM: Yes, we will work on that.

Co-Chairman Senator CROLL: On the items they handle which are on the D.B.S. list.

Mr. HAMM: Do you require that over the same period we have used here, that is, 1960 to 1966, or could it be reduced to a shorter period of time?

Co-Chairman Senator CROLL: Would a shorter period of time be agreeable to you, Mr. Olson?

Mr. OLSON: Yes, it could be for a shorter period.

Co-Chairman Senator CROLL: Name the shorter period of time.

Mr. OLSON: 1966, 1965 and 1964 would be all right.

Co-Chairman Senator CROLL: Any further questions?

Mr. JOYAL: Mr. Hamm, I have just had an opportunity of looking briefly at your statements for the past five years, 1962 to 1966 inclusive, and it is noted that your net income for that period increased from $768,000 to $1,182,000. Would you agree that this represents an increase over that five year period of approximately 54 per cent?

Mr. HAMM: Yes, I would say so.

Mr. JOYAL: Your earnings per share of Class A and Class B, after paying dividends, shows an increase from $4.41 per share in 1962 to $7.09 in 1966, which from my rough calculation shows an increase in dividend earnings of 60 per cent over the past five years. My calculation also discloses that your retained earnings in 1962 amounted to $2.7 million, and in 1966 they amounted to $4.6 million, which I calculate roughly is an increase of 70 per cent in retained earnings during that period. You agree with my figures, I take it?

Mr. HAMM: Well, yes, from what you have mentioned I would accept your calculations.

Mr. JOYAL: It is also shown that in 1962 your shareholders investments amounted to $653,000 issued shares, which by 1966 had been reduced to $641,000. Therefore, do I take it that during that period of time the cost of your

investment has gone up from a total capital and surplus of $2,700,000 to $4,600,000?

Mr. HAMM: Yes, I would say so.

Mr. JOYAL: Which is an increase, as I have said before, of approximately 70 per cent. That is all I wanted to get for the record, Mr. Chairman.

Co-Chairman Senator CROLL: Any further questions? Mr. Hamm, we have asked you some very important questions to which your answers were not readily available, and we can easily understand that. However, our accountant has made a note of them and we want a reply within a reasonable period of time. We particularly emphasize the question concerning Harbour Investments, which, as we understand, is a holding company that owns your company or has the majority control. We have to know who they are, and if some other corporation owns them, we want to know who the other corporation or corporations are. Trace it right down till you get the names and addresses and faces. That is what we are looking for.

We would like very much to have that information so that it will not be necessary to call anybody else with respect to that part of the evidence.

Mr. HAMM: Right, Mr. Chairman.

Co-Chairman Senator CROLL: On behalf of the committee I wish to thank you and Mr. Milton for being helpful. You have done your very best to answer the questions and to be helpful to us in this undertaking. Thank you very much.

Whereupon the committee adjourned.

EXHIBIT "A"

	Mid-August '66						Mid-October '66					
	Branch "A"			Branch "B"			Branch "A"			Branch "B"		
Commodity	Cost	Reg Sell	Spec Sell	Cost	Reg Sell	Spec Sell	Cost	Reg Sell	Spec Sell	Cost	Reg Sell	Spec Sell
Bananas	5.65	6.40	6.00	5.65	7.00	6.40	4.90	6.00	5.20	4.90	7.00	5.80
Cabbage (Local)	2.75	3.00	—	2.50	3.00	2.75	2.25	2.75	2.65	2.50	3.50	3.00
Carrots 50s	3.45	—	—	3.45	—	—	2.50	—	—	2.50	—	—
Carrots 4s	.36	.36	—	.36	.40	.35	25.3	.34	—	25.3	.30	—
Carrots 1s	—	—	—	—	—	—	9.6	11.5	—	9.6	.11	—
Grapes-Red	5.15	5.75	5.65	5.15	6.00	5.50	4.37	4.50	—	4.37	4.50	—
Cukes Hmp	4.96	6.25	—	4.96	6.25	—	3.83	4.50	—	3.83	5.00	—
Lettuce 2s	6.97	8.00	—	5.35	5.50	—	5.35	6.00	—	5.03	6.00	5.75
Lemons	—	—	—	—	—	—	6.23	7.00	—	6.23	7.50	—
Onions 50s	4.80	—	—	4.80	6.00	—	3.20	4.00	—	3.20	4.00	—
Onions 3s	.35	.39	—	.35	.40	.38	.29	.31	.30	.29	.31	—
Oranges 138s	4.50	5.40	5.25	4.50	5.75	—	5.42	6.55	—	5.42	6.25	—
Oranges 163s	4.07	5.00	4.75	4.07	5.00	—	4.85	5.70	—	—	—	—
Potatoes 75s	2.25	—	2.40	2.25	2.75	—	1.75	2.10	—	1.75	2.10	—
Potatoes 15s	.54	.57	—	.54	.65	—	.43	.50	—	—	—	—
Tomatoes 10/12	1.83½	—	2.20	1.83½	2.50	2.25	1.83½	2.25	—	1.83½	2.25	—
Celery 3s	5.79	7.00	—	5.79	7.00	—	—	—	—	5.50	7.00	—
Celery 2s & 30s	7.96	9.00	—	7.96	9.00	7.75	—	—	—	—	—	—
Turnips Local	3.50	4.00	—	3.25	—	3.50	—	—	—	—	—	—
Lettuce Local	3.50	4.00	—	—	—	—	—	—	—	—	—	—
Tomatoes Ontario	3.05	—	3.25	3.05	—	3.25	—	—	—	—	—	—
Cukes H.H.	4.50	—	4.60	—	—	—	—	—	—	—	—	—

EXHIBIT "A"—(Continued)

(Wholesale cost price for the following years)

	1960	1961	1962	1963	1964	1965	1966
Y. E. Beans 100 lbs.	13.82	12.20	8.80	9.22	14.18	22.45	14.43
Clark's Beans with Tomato Sauce 24/20.	4.50	4.50	4.50	4.50	4.30	4.80	5.50
Christies Premium Sodas 24/1 lb.	7.12	7.12	6.71	7.31	6.85	7.49	7.49
Malkins Brooms 12s	11.50	11.50	11.50	15.45	15.00	15.00	18.60
Blue Bonnet Margarine 30/1's	7.80	8.10	8.10	7.80	7.80	9.00	9.98
Rose Margarine Parchment 36/1 lb.	8.10	8.10	7.38	7.38	7.56	9.36	9.72
Schwartz Peanut Butter (Reg. J) 12/16.	4.10	4.35	4.50	4.50	4.50	4.85	4.90
Libby's Sweet Orange Juice 12/48	4.27	5.61	4.39	5.70	6.21	4.51	4.99
Graves Beans with Pork 24/20	4.16	3.81	4.16	4.24	4.36	4.36	4.76
Graves Apple Juice 12/48	3.24	3.44	3.44	3.63	3.65	3.55	3.75
Ontario Choice Tomatoes 24/28	5.03	4.77	4.77	4.55	5.98	6.23	6.31
Allen's Fruit Drinks 12/48	3.65	3.65	3.25	3.25	3.80	3.80	3.80
Maxwell House Instant Coffee 24/6	19.95	22.00	22.80	22.75	27.50	26.30	26.30
Maxwell House Coffee Reg. 12/1 lb. Bag	7.80	8.04	8.04	7.80	9.96	9.96	9.96
Heinz Ketchup 24/11	5.15	5.15	5.15	5.15	4.69	5.35	5.35
Pink Seal Fancy Pink Salmon 48/½	12.94	13.44	13.95	13.95	14.19	15.84	15.84
Hereford Corned Beef 24/12	11.00	10.70	9.85	10.45	10.00	11.25	12.40
Kellogg's Corn Flakes 36/12	8.82	8.82	8.82	8.82	9.62	9.62	10.21
Rolled Oats 9/5 lbs.	4.50	5.10	5.10	5.10	5.10	5.30	5.75
Jello Powder 36	3.00	3.00	3.00	3.20	3.50	3.50	3.50
Crisco 36/1 lb.	13.32	13.00	12.36	12.36	13.24	13.24	13.85
Easifirst Shortening 36/1 lb.	9.81	10.72	9.10	9.72	8.94	9.30	9.76
Domestic 36/1's	11.57	11.62	11.62	11.62	12.34	12.84	13.06
Catelli R. C. Macaroni 24/16	3.80	4.05	4.05	4.30	4.30	4.30	4.30
S.S. P.F.B. Molasses 6/qt.	1.49	1.70	1.70	1.75	2.35	2.10	2.20
White Swan Toilet Tissue 24/4	10.85	10.85	10.85	10.85	10.85	10.13	10.86
Rose Sweet Mixed Pickles 12/16	3.34	3.49	3.49	3.63	3.79	3.58	3.82
Household Salt 24/2	2.91	2.91	2.91	2.91	3.11	3.11	3.27
Tide Soap Powder Giant 12	9.25	9.25	9.25	9.70	9.91	10.27	10.47
Aylmer Choice Peaches Hvs. 24/20	6.64	5.69	5.69	5.69	6.21	6.81	7.01
Aylmer Fancy Tomato Juice 12/48	3.50	3.65	3.80	3.40	3.90	3.65	3.95
Codfish Bulk 30 lbs.	9.30	9.30	9.88	10.85	12.30	12.00	12.00
Southern Cross Tuna Flaked 48/6	6.50	6.50	6.95	7.50	8.15	8.25	9.30
Southern Cross Tuna Solid 48/7	7.70	7.70	9.80	10.50	10.85	10.95	12.10
Maple Leaf Pure Lard 36/1 lb.	7.56	7.56	6.30	6.12	8.46	9.18	9.54
Boston Corned Beef Loaf 24/12	8.24	8.45	7.70	7.70	8.97	9.25	10.85
Prunes Medium Size 24/1 lb.	6.95	7.88	7.20	6.87	6.17	6.43	7.15
Save-Easy Instant Coffee 12/6	—	—	—	—	9.03	9.02	9.02
Kleenex Reg. 72's	11.05	9.83	9.83	9.83	10.10	10.47	10.85
Kleenex Econ. F. F.	8.15	7.55	7.55	7.55	7.55	7.70	8.49
Vogue T. Tissue 100's	6.50	6.50	6.50	6.85	7.22	7.95	8.39
Ballet T. Tissue 100's	9.75	9.75	9.75	9.75	9.75	10.42	10.73
Ballet T. Tissue 4 Roll	9.36	9.36	9.36	9.36	9.36	10.00	10.73
Evaporated Milk	6.30	6.30	6.55	6.85	7.00	7.10	7.35
Flour	6.68	6.93	7.48	7.83	8.03	8.03	8.43
Sub-Standard Peaches 24/20	5.09	4.74	4.74	4.64	5.26	5.06	5.51
Total Cost	336.06	338.68	332.62	342.88	366.86	384.64	397.51
Yearly Percentage Increase or Decrease.	0.78	1.79	3.08	6.99	4.84	3.34	
Period Percentage Increase				18.29			

—Upon resuming at 3 p.m.

Co-Chairman Mr. BASFORD: Will you please come to order. Following some comments made the other day, I would advise that each of the witnesses scheduled for appearance later have been sent the following telegram:

> Re your company's scheduled appearance, consumer prices committee would strongly urge, for better understanding of your company's position, that prepared statements be submitted to me—

That is, to Dr. James—

> at least one day prior to appearance, for confidential distribution to committee members. Such distribution requires 40 copies in English, 10 copies in French, excluding copies for press which we leave to your discretion. Suggest you bring extra 100 copies for distribution at meeting.

That is sent as a result of your remarks the other day, Mr. Leblanc.

Mr. LEBLANC (*Laurier*): I wish to thank the Steering Committee for accepting the suggestion. I think it will make the position easier for the committee generally.

Co-Chairman Mr. BASFORD: The initial difficulty was that people were asked to appear at rather short notice.

This afternoon we have as witnesses, Couvrette and Provost Ltée. On my immediate left is Mr. Aimé Boisvert, Vice-President, Development; next to him is Mr. Bernard Couverette, President of the company; behind me are Mr. René Provost, Executive Vice-President and General Manager; Mr. Gérard Carrière, Secretary and Vice-President, Merchandising; and Mr. Gilles Brunet, the Comptroller.

If the gentlemen of the press would like to sit at the table for translation, they are welcome to do so. However, copies of the brief are available in both English and French. Let me then ask you, Mr. Boisvert, to read your brief.

M. Aimé Boisvert, Vice-Président (Expansion): Merci, monsieur le président.

(*Translation*)

Messrs Chairman,
Honourable Members of the Joint Committee,

Not only have we brought along with us submissions in both English and French, but we shall proceed with its presentation in our operating language, confident that the English texts at your disposal, plus simultaneous translation will provide more than adequate communication. Needless to say that after the presentation, we shall lend ourselves to the cross examination of the Committee in either suitable language.

Our company is a young one having been incorporated at the end of 1961 through the merger of Couvrette & Sauriol Ltée and of Provost & Provost Ltée, and having begun effective merged activities towards the beginning of 1963. Nevertheless, a first consolidated report of operations was produced for the term ended March 31st 1963, and others on every last Saturday of March of each year, yielding four terms, against the requested six. Nevertheless, we are confident that the four terms covered will serve their end in covering the topics suggested by Dr. James, your Committee Secretary.

Other wholesale food distributors will have illustrated for you the essential differences between our type of operation and that of integrated national chains and we shall not belabor the point other than specifying that our own organization caters to the requirements of independently owned retail stores of all types, sizes and locations, as well as to some institutions.

And in order to deal in terms of comparable quantities, we have separated our sales to institutions from the consolidated totals of our Annual Reports. We have at the same time separated therefrom, our sales of trading stamps, not so much because they are not an integral part of our food sales, but because our trading stamp company, *Primes* Regal, Inc., was incorporated in Summer 1964, and became operative February 15, 1965. We thought that in thus separating their results, we would produce a set of results of a more comparable nature, through the four terms under study.

Gross Sales.—Our gross sales for the four terms under study were as follows at:

	March 31, 1963		March 28, 1964		March 27, 1965		March 26, 1966	
	$1,000	%	$1,000	%	$1,000	%	$1,000	%
	21,122	100	22,999	100	40,664	100	48,274	100
Cost of sales ..	20,147	95.39	22,103	96.10	39,272	96.57	46,598	96.53

Gross Profits.—For the same period, these ran as follows:

975	4.61	896	3.90	1,392	3.43	1,676	3.47

It must be noted that for the term ended March 31st, 1963, about $1,200,000 worth of institutional sales could not be separated and since, because of cost of doing business and long terms of payment, these sales normally call for higher gross margins, they will in part explain the 4.61% margin during that term.

SALARY AND WAGE COSTS—ADVERTISING EXPENDITURES

Transportation costs.—Using the same tabulation as above these expenses are the following:

	March 31, 1963		March 28, 1964		March 27, 1965		March 26, 1966	
	$1,000	%	$1,000	%	$1,000	%	$1,000	%
Salaries	621	2.94	565	2.46	925	2.27	1,001	2.07
Advertising	97	.46	267	1.16	573	1.40	649	1.34
Transportation ..	173	.82	114	.50	144	.35	162	.34

The Transportation Cost information given consists in our delivery costs only. Most of our merchandise is delivered to us F.O.B. our warehouse. Any transportation cost changes sustained by our suppliers have historically been relayed to us on the occasion of price adjustments in the form of new F.O.B. our warehouse prices. Where we buy on an f.o.b. supplier's place of business basis, the cost of transportation is directly added to our per unit cost price at the time the invoice is received, and we have no manner in which to separately account for this factor, other than to say that it might affect hardly more than 15 percent to 30 percent of our purchases.

Private Brands.—These, within very wise quantitive variations, have become a nearly automatic adjunct of the aggressive food merchandiser. Our company uses them on seven product categories only, and their sales in the total product mix are far from significant yet. A separate study tells us that 3 per cent of our sales are for our brands directly destined to our group affiliates, while bread, made available more widely, would represent 1.24 per cent of that same sales volume.

These private label products are carried for two reasons: (1) They allow our group members to better identify themselves by continuing their group identity on to the consumer's table and in the pantry. The object is to build better consumer loyalty to the stores of our affiliates. (2) Private brands, generally cost less for similar quality and quantity and enable our merchants to remain competitive.

Determining Selling Prices at Wholesale.—Two systems are dominant in our distributive field: (a) The invoice cost, before cash discount, plus a graduated scale of percentage margins depending on the size of the retailer's order. (b) A "net" price structure including a markup over and above the cost price, sufficient to cover operating costs and profit. Our own catalogue follows the latter pattern, making sure that our end prices are strictly competitive with any in our market on the fastest moving battery of products, and a somewhat higher margin on products enjoying a lesser velocity of movement. Our pricing is never conceived to cope with anticipated demand. At least, it is not so conceived at our level of distribution. Hundreds of price adjustments upwards or downwards are effected by our suppliers, which are immediately transferred to our price structure, and according to the same general percentage markup mechanism. The only exception to this rule might take in the necessity to cover our needs in advance on a few staple lines of vegetables when we know that the crop results are deficient and might leave us without supply too early before the next canning season. When this development occurs, at any rate, we must then resort as well as our competitors to importation.

Trading Stamps.—These, insofar as the general public continue to accept them, are a necessity dictated by competition. We operate our own stamp company, and because of certain economies are able to offer the stamp program to our customers at a substantially lower price than would otherwise obtain. The advantage to us as a wholesaler apart from that of the lower price, is that of exclusiveness to our affiliated members and customers.

Contests.—We consistently organize in-store promotions as a support for each individual group member, and as a complement to the television, radio and handbill advertising program we conduct centrally for the retailers. These afford us the opportunity of originality, plus the added inducement to support the stores eager for continuing interest and excitement.

Weekly or Seasonal Food Specials.—These, again, are dictated by the extremely competitive field that is ours. Seasonal food specials are a natural opportunity to offer product categories at special prices, enabling the housewife to effect economies. Product categories are again responsible for a large number of promotional "weeks" such as baby week, pickle week, sandwich month, salad month, cheese month, potato month, apple month. Seventy five weeks would be more appropriate in a year to accommodate them all. Apart from these, group operations such as ours call for a number of promotional events where special emphasis is placed on low prices and even on occasion, some free merchandise. These will be observed on the occasion of anniversary sales, and the Easter and Christmas seasons.

Advantages to the Wholesaler of Private Labels VS Nationally Advertised Labels.—We have explained above what, in our view, constitutes the value of private brands. Also in our view, the private brand, as conceived thus far by the wholesaling industry should not be construed as being "opposed" or "versus" nationally advertised brands. If it were not for the creative leadership of the manufacturers of advertised brands the entire food distributive machinery might well be still at the days of in-store packaging out of bins or the cracker barrel.

Not so long ago, one could read in the newspapers a recommendation to the consumer of buying from bulk in preference to the prepackaged units. Needless to say that this practice, if restored, would soon bring us back to the pre self-service margins of twenty five percent or more at retail, since centralized prepackaging has proven its economic value over the in-store packaging. And Mrs. Consumer, deprived of the convenience now found in present day foods

might well be back to five hours of kitchen duty instead of the one to two hours a day that now suffice.

Through the interplay of competition, particularly in important metropolitan markets such as ours, as many as 20% of the consumers are liable to be attracted to the opposition's stores, and another 20% to 22% are liable to move each month of May. If one has been fortunate enough to develop loyalty towards one or more of his private brands, he stands a chance of repossessing some of the elusive customers, through his private brand.

Cash And Carry Outlets.—In order to maintain economy, we have had to gradually raise the minimum size of order that we would process out of our main warehouse. This would tend to eliminate from our ex-warehouse sales a most substantial volume of business available from thousands of small retailers. To cope with their needs, and enable them to buy at the lowest possible price, we have in operation at strategically located sites, six cash and carry depots operating under the name of Les Epiceries Presto Ltée. In these depots, the retailers shop their requirements of merchandise exactly in the same manner as a consumer does through a regular food store, the purchases being checked out with no more than a cash register tape. In this manner, the expenses of selling, delivering, order assembling and documentation are practically eliminated, and the savings are passed on to the small merchant, enabling to hold his own, price wise against the more sophisticated competition he has to face.

Determining that our Wholesale prices are competitive.— This is done by a periodical control via comparison with competitors' price books. Another frequent mechanism used, since all prices cannot be and are not exactly the same, and since the price bases vary from "cost plus" to "net less an allowance", such as is our case (we concede a 1 per cent allowance on orders of $800 or more, accompanied by blank cheque), another mechanism, we say, consists in running substantial parallel orders, on the same items out of competitive catalogues, and making sure that we are at least on a par with them, or slightly lower, still remaining in a position to at least meet operating costs. When one bears in mind the low net profit (less than 7/10 of one per cent in our case) it must be admitted that there is not too much of a margin between loss and profit.

So much for the suggested topics for discussion submitted by your Committee Secretary, and for which we are thankful.

To summarize, our wholesale industry ranks among the most economically conducted large businesses. All through the 1950's our industry, to assist independent retailers remaining competitive with their corporate competitors, has had to learn to pare down costs to the bone, and from historical margins of from ten to twelve per cent, we are now down to the type of gross and net margins reported earlier. Nothing is being spared to bring efficiency to new heights through the use of data processing, mechanization and automation which, in our own operation, has enabled us to cut down inventories substantially, and reduce total handling costs through work simplification. This has helped facing up to our own salary increases, while maintaining a competitive position, and no more than sustaining our slightly more than 6/10 of 1 per cent margin of net profit for the past two terms.

While paring down costs and increasing efficiency, it has nevertheless been possible through retailer cooperation, without affecting the general low gross and net margins, to provide the independent retailer with an ever widening battery of services including substantial advertising, through radio, television, handbills and window posters, special sales, a centralized produce purchasing service, meat program, dairy service, retail accounting, field supervision, as well as full weekly information through bulletins on all store departments.

The importance of price to the homemaker.— Many food distributors have been guided, in orienting their merchandising efforts, by consumer preference

surveys conducted by various research organizations, particularly in the past ten years. These surveys, covered by the trade magazines, and by industry conventions, have generally ranked these preferences in the following order:

1. Store cleanliness. One must understand overall atmosphere here, rather than straight cleanliness.

2. Freshness of perishable products, namely meat, produce, dairy products and frozen foods. We share the view that these products in particular win or lose customers for a store, to a most important degree.

3. Variety. The one-stop concept for satisfying one's requirements has gained wide acceptance. And variety has been an important key to larger average orders on the key shopping days.

4. Convenience and comfort. This, to any shopper of the supermarket has been well provided, in most areas of the stores.

5. Courtesy and personal attention. This is of particular interest, in terms of stores where physical conditions have tended to minimize possibilities for personal contact, although recent trends towards in-store bakeries and delicatessen counters would work towards more personal contact.

6. Value. Or price. We shall leave observations that issue from this ranking of values to the Joint Committee.

It is to be remarked that up until recent weeks, many factors have superseded the value, or price element. In independent stores, where space generally cannot accommodate variety and convenience to the same degree as the large supermarkets can, it is courtesy and personal attention that have stood the independent operators in good stead in our Province particularly, where he still enjoys about seventy per cent of total food sales. We think we all share a degree of responsibility in fighting a rising cost of living and inflation, and in our food field we believe there would be merit in putting across to the housewives, recommendations issued by the United States President's Committee on Consumer Interests, under the title of "Shopping Sense", a series of ideas for stretching food dollars. Such headings as "Do pennies count? showing that three or four cents off a 25 cent can of beans represent a 10% to 15% economy ... Try New Recipes, New Meal Ideas ... Shop the Specials ... Make Out a Shopping List... Compare the Brands... Be Willing to Switch When the Price is Right ... Buy in Quantity ... Check the Cost of Convenience ..." and some common sense ideas in shopping the dairy, meat, produce and cereal departments, all can go a long way in helping Mrs. Consumer redressing a situation in which she has had a heavy participation. A copy of "Shopping Sense" is appended to this brief.

(*See Exhibit A following this text*)

Much closer to where we live, right here in Canada, the newspapers of last week quoted, at the suggestion of the Canadian Association of Consumers, a government of Canada prepared booklet comparing two alternative shopping lists of supposedly equal nutritive values one of which totalled $18.75, against the more sophisticated one of the same nutrients through a different set of food vehicles at somewhat more than $34.00. I shall not venture to evaluate the documentation on which this release was based, at so close range. But the CAC observations would appear most potent in assisting those particular consumers with low incomes. The point is: Shall we tell them, and, if yes, will they listen?

(*See Exhibit B following this text*)

(*English*)

Mr. Basford is inviting me to point to the appendix to the brief which lists the prices of some faster moving items as had been requested by your secretary.

(*See Exhibit C following this text*)

I was present this morning during a discussion on this very topic. I can sense we are trying as much as we can to work towards comparable quantity items related to the calculation of the cost-of-living index wholesale section, and we would ask no better than to try to supply such a list on the basis discussed this morning. I think we will both gain in accuracy of information and in workability. We would ask no better than to comply with the request that came from Mr. Olson, I think it was, this morning. We must plead guilty to not coming with the type of information which we know now is necessary, but we came with the type of information we thought had been requested. It is a question of semantics on the issuance and receiving which seems to be at variance with various other organizations as well.

Co-Chairman Mr. BASFORD: Thank you very much, Mr. Boisvert. Mr. Saltsman.

Mr. SALTSMAN: I would like first of all to express my appreciation for this information you have placed at our disposal, and refer you to the item in the third column on one side where it says "Figure the cost per ounce, per pound, per serving." This is perhaps one of the ways the consumer could determine the value he is obtaining. This is in the column which is headed "Be willing to switch when the price is right..." Some of the witnesses who appeared before you have had considerable difficulty in figuring this out for themselves. This sounds like an excellent piece of advice to the housewife. Can you tell me how the housewife can do this an easy fashion?

Mr. BOISVERT: I am afraid, Senator Saltsman—

Co-Chairman Senator CROLL: Leave him where he is.

Mr. SALTSMAN: Wrong party.

Mr. BOISVERT: Have I promoted you? May I apologize to the honourable senators.

Mr. SALTSMAN: I am afraid they could sustain having me with them.

Mr. BOISVERT: You are touching upon a practice I have indulged in myself when shopping with Mrs. Boisvert. I do not contend it is the easiest thing, but as in all things educational, and this was the concluding part of our brief—are we going to try to do the education? And if the answer is yes, are we going to be listened to because in a sense education is a matter of repetition. Going all over our brief yesterday and commenting on the various admonitions and headings on this paper, our president thought if we go to project these as slogans in stores, using posters, here is an indication where we ourselves have been sensitized to these possibilities. It is largely a matter of education. A little practice in arithmetic should render anyone proficient in the end. The first thing is to get things started in that direction.

Mr. SALTSMAN: I am very pleased with your attitude towards this, personally. As a help in this educational process, and taking into consideration the fact it is going to be very difficult, even for those trained in this sort of thing, let alone those who are not trained to make this kind of assessment, what are the possibilities for having such goods priced on a per-ounce basis, to leave a panel on the box and instead of listing, say, 2 for 49 cents, to indicate the price per ounce? This would give the consumer a more valid comparison.

Mr. BOISVERT: I would like to submit respectfully that this would render Mrs. Consumer a great service but at a very high cost. Items on the shelf are subject to change fairly often. It is already taking the patience of Job and the wisdom of Solomon to educate our free affiliated members to keep their prices under control. They cannot afford to be off in this. If they are too low in their prices they lose money, and if they are too high they lose customers, so just to get them to maintain discipline in their pricing is almost already superhuman. There is a high degree of education there. As I started answering you, in this

type of negative approach, and here I am thinking out loud and very candidly, I was wondering if perhaps the same device that serves to print the prices on the tin might, if adjustable, conceivably convey that information at the same time. This is perhaps far-fetched, but to indicate the price in the manner in which it is done now could be more costly than the benefit. But if a mechanism could co-ordinate the pricing with the information—maybe you have started something new.

Mr. SALTSMAN: I think it is conceivable that the machinery at our disposal, and I would like to pursue this further with you because I think it would be important for the consumer—it is quite conceivable you could have a machine with settings where you dial the price and a number of items and then you push a button on the machine and it comes out in that fashion. The cash registers in the stores are far more complex than that. I think there are already printing machines of a type that could be readily adapted for this purpose. If the manufacturer were to leave on the corner of each box a space for this information then the consumer would know as she looks at the right-hand corner, for example, what the price is and also that it costs so much per ounce.

Mr. BOISVERT: I am going along because I think it has merit on the condition that the feasibility be not at the cost of the consumer.

Mr. SALTSMAN: Should this committee, in your opinion, pursue this line of investigation so we could balance the cost of doing this as against the benefit to the consumer?

Mr. BOISVERT: I think all the advantages we have gained over the years in marketing have issued from research. Nothing might be more worthwhile than to devise, if we can, a mechanism of that type.

Mr. SALTSMAN: Thank you very much for your answer to that question.

Mr. MCCUTCHEON: Could I ask a supplementary at this time, Mr. Chairman?

Co-Chairman Senator CROLL: Yes, go ahead.

Mr. MCCUTCHEON: Would this step that Mr. Saltsman is referring to be simplified if we had standard packages that had 4 ounces, 6 ounces or 10 ounces, rather than as we now have, 10-3/8 ounces in some cases? Should our committee explore this angle more?

Mr. BOISVERT: Anything that might introduce simplification would serve the entire food industry and the consumer as well.

Mr. MCCUTCHEON: Do you think this would be worth while?

Mr. BOISVERT: Definitely so.

Mr. MCCUTCHEON: Thank you. Thank you, Mr. Saltsman.

Mr. SALTSMAN: Mr. Boisvert, I wanted to go back to the first question. If it is not possible in terms of transferring this information on to the box of merchandise itself, have you ever considered the possibility of using some of these wheels, these paper cardboard wheels sometimes used for advertising? I have seen them used for eggs, and you dial Grade "A" eggs and a lower grade in order to get the relative value. You could have a wheel devised as advertised for a company whereby the consumer could dial the number of ounces and the price and come out with the price per ounce. This very simple mechanical or low-cost device could be given to the consumer as an aid to shopping.

Mr. BOISVERT: I think this would be a possibility. I am thankful for something I have learned already out of this.

Mr. SALTSMAN: The housewife could translate the information herself until such time as consideration could be given to the other factor.

Mr. BOISVERT: This should be explored, I think.

Mr. SALTSMAN: Thank you.

On page 3 of your brief, under the schedule "Salary and wage costs of—advertising expenditures" as we look along the salary line we find that salaries, as a percentage of your sales, have been coming down continuously. If you look along the transportation line you find that transportation costs, as a percentage of your sales, have been coming down continuously. When we look at advertising, however, we find that advertising, as a percentage of your sales, has been rising very steadily, and has gone from one-seventh, in relation to salaries in 1963, to almost two-thirds in 1966. I know this is the cost of doing business as much as the other factors. I think you recognize this by putting it into this framework.

Mr. BOISVERT: Yes.

Mr. SALTSMAN: Is there anything we can do about diminishing this trend and still maintaining competition in the field?

Mr. BOISVERT: We live in a dynamic, competitive business. If you will refer to my notes on the mobility of the consuming public, 20 per cent are recognized as changing loyalties throughout the year, and in such a metropolitan concentration as Montreal from 20 to 22 per cent and sometimes, in terms of certain sections of the city, more than that move out altogether. It takes advertising and all the mechanisms at our disposal to recapture the moving population and the moving loyalties, and maintain the volume. We could have decentralized this cost of advertising by stating that our retailers participate in it. We have answered liberally the request for the information from Mr. James to show the trend. It does not actually cost us that because our retailers share in the cost of that advertising, but we thought we would answer the committee request truthfully and indicate the trend. But at the same time, sales have shown the effectiveness of these efforts; they have gone up dramatically.

Mr. SALTSMAN: Had there not been any advertising over that entire period—I mean, not only for yourselves, but generally throughout the whole industry—do you feel people would have stopped buying food under those circumstances? I think this is a sort of exaggeration, this business of saying people buy because advertising takes place. I think that has a limited truth to it. Obviously, people buy, in most cases, because they require food and nourishment. I am not trying to single out your company any more than I would single out any other company in this sort of thing. It is a pattern in the whole industry, and we know everyone has to go along with that pattern if they are going to survive. But, to what extent has this expensive advertising and promotional gimmickery, as it has sometimes been called, really helped the consumer? I realize there is some meritorious advertising, but has it not perhaps gone too far in the whole industry?

Mr. BOISVERT: Has it gone too far? No matter how we use our advertising budget, in some form or another it is the same budget. It cannot exceed more than so many dollars or so many percentage points of our available expenses. We have to get the blessing of our management on it.

Let us use an illustration where advertising perhaps has been lacking. I am cautious in using the words. Milk distribution, for instance, where historically if you go back through the years, in contrast to what happened in the supermarket industry, it has not shown too dramatic a growth in consumption. Rather it tends to be going down because of the lacklustre, overall approach advertising-wise in the dairy industry. Maybe there are some changes ahead and certain merchandising trends make milk available at a cheaper price. It does not follow it is publicized that much more. Here is an example of a basic food which, if sold in larger quantities, could help the entire economy through helping the farmer, and yet it still constitutes a problem for lack of the aggressiveness displayed by other sectors. Whether there is too much or not enough of a thing, I submit respectfully, is very relative.

Mr. SALTSMAN: On page 10, where you indicate some of the reasons or some of the motivations of the consumer in terms of buying, price or value appears down at the bottom. This is on page 10.

Mr. BOISVERT: Yes.

Mr. SALTSMAN: Price or value is sixth in the reasons for consuming preferences. This, of course, reinforces statements that have been made by other people along the same lines, based on survey, that price almost seems to be the last consideration of the consumer. This is what the surveys say, yet many of the consumers today, as witness their revolt and their boycotting, seem to be very much concerned with price. I would like to ask you a number of questions about this sort of value scale we have here. First of all, has this always been the case? Are consumers less price-sensitive today than they were, say, 25 years ago; and to what extent have they been made less price sensitive by the nature of food marketing? I mean, has there not been a tendency to make them less price sensitive? There is a loyalty to brand names, for instance, and a loyalty to certain types of goods because they are widely advertised. Has this not interfered with their ability to become price conscious?

Mr. BOISVERT: This goes back a long way. It goes back to the birth of the supermarket itself in the thirties, when it had only the price image. There has been an evolution since then. There was the putting forth by some of the merchandisers of some of the fineries, and a more pleasant atmosphere. In the early fifties—I should think about 1953—one of Canada's leading chains, taking the view that in theory the finery cost something and that it would be imposed on the consumer, decided to build stores which were basically functional. They built stores with the cement beams showing, with no air conditioning and no particular decoration, and with a minimum of floor treatment. But, after 1953 Mrs. Consumer swiched her preference. She snubbed that type of store, and such stores had to be done over two or three times in the ensuing years.

It was in the years following 1953—in about 1955 and 1957—that two surveys were conducted in Montreal, in particular, involving samples of 175 consumers, and they produced these varied results. It is these results that were reappraised at convention seminars and in the trade magazines, and other chains across the North American continent proceeded to establish what their consumers wanted. It was 175 women who stated they wanted these things in that order, and not I. Mind you, enough of any of those factors put into play could change the order of the preferences. I am stating a matter of fact here. Perhaps if a survey were conducted today, price would come out at near the top of the pile—possibly in third place, after cleanliness and freshness of the perishables. You cannot erase those first two factors.

Mr. SALTSMAN: Are those factors really that expensive to maintain? Does it really cost that much to put up a pleasant structure as against the bare bones block type of structure, when the cost is amortized? Does it cost the consumer that much?

Mr. BOISVERT: I have no practical knowledge of such an appraisal, but it would seem that theoretically the lower the cost of a building, and the tooling or the store equipment, and so on, the less should be the occupancy costs. I think that that stands to reason.

Co-Chairman Mr. BASFORD: Have you many more questions, Mr. Saltsman?

Mr. SALTSMAN: No, Mr. Chairman.

Mr. BOIVERT: It would be less but it would lose customers to the operator.

Mr. Bernard COUVRETTE: And thus be more costly.

Mr. BOISVERT: Oui.

M. LEFEBVRE: Monsieur Boisvert, avez-vous des commentaires à nous faire sur des ventes d'articles annonçés à 10c., 15c. ou 20c. de rabais? Personnellement,

êtes-vous pour ou contre cette idée? Pensez-vous que cela pourrait aider à faire monter, ou baisser les prix, pour le consommateur?

M. BOISVERT: Je n'ai pas bien compris votre question.

M. LEFEBVRE: Les ventes d'articles qui s'annoncent à 10c., 15c., 20. de rabais, comme le café, par exemple, ou quelque chose de ce genre, qui est annonçé?

M. BOISVERT: Je vais laisser notre vice-président, M. Carrière, répondre à cette question.

M. Gérard CARRIÈRE: Si je comprends bien votre question, monsieur Lefebvre, ce sont des rabais sur l'étiquette?

M. LEFEBVRE: Oui.

M. CARRIÈRE: Des "off labels"?

M. LEFEBVRE: C'est ça.

M. CARRIÈRE: En ce qui nous concerne, on n'a pas grand choix, parce que c'est le fabricant qui décide d'offrir cela, dans le but d'attirer le consommateur à demander sa marque en particulier. Mais, si je comprends bien votre deuxième question, aussi, si vous demandez si on est en faveur de cela, si tous les manufacturiers discontinuaient de le faire, ça ne ferait que nous aider à porter un inventaire moins gros, et on serait plus heureux que l'on est dans le moment.

M. LEFEBVRE: Il y aurait une réduction dans le prix?

M. CARRIÈRE: Normalement, il devrait y avoir une réduction. Si le manufacturier est en mesure de réduire une boîte de savon de 40 pour 100 sur la boîte, enfin, logiquement, ça semble un peu ridicule qu'il ne passerait pas son prix de 40 pour 100 la boîte sans l'écrire dessus.

M. LEFEBVRE: Vous êtes contre cela?

M. CARRIÈRE: On est contre, à cause de la multiplicité de ces "off" que nous avons avec un fort pourcentage de nos fournisseurs.

M. LEFEBVRE: Faites-vous des pressions auprès des manufacturiers, afin d'éliminer ça?

M. CARRIÈRE: On fait une pression, mais, c'est une pression qui n'a pas grand succès, si on est les seuls à le faire. Si on faisait une pression, au point de vue de refuser de la marchandise, on ne serait pas sur une base concurrentielle, si vous voulez.

M. LEFEBVRE: D'après les témoins qui ont comparu ici, durant les deux semaines passées, les détaillants, les fournisseurs, sont tous contre, mais on l'a encore.

M. CARRIÈRE: Voici, on est contre, parce qu'on ne sait jamais, enfin, disons, aujourd'hui, on est ici, et lundi je vais recevoir la visite d'un fabricant qui s'appelle "X", et qui dit: A compter de tel jour, on aura de la marchandise avec rabais de 5c. par boîte. On a peut-être un inventaire de 100, 150 caisses de ce produit, sur lesquelles le 5c. n'est pas réduit; ça nous oblige d'acheter du produit qui est en offre spéciale, pendant qu'on accumule de la poussière sur le stock régulier, et notre inventaire monte; il y a une immobilisation de capital qui se produit.

M. LEFEBVRE: D'après vous, est-ce que ce serait une bonne idée de faire des pressions?

M. CARRIÈRE: C'est assez difficile pour nous de répondre pour le fabricant, en tant qu'on est concerné; mais, comme distributeur, si vous demandez des avis, je vais les donner.

M. LEFEBVRE: Merci. D'après votre expérience, y a-t-il encore une place pour le magasin du coin, et peut-il faire consurrence aux chaînes?

M. CARRIÈRE: Est-ce que M. Boisvert pourrait répondre à cette question?

M. BOISVERT: Bien, voici: je crois que j'ai répondu à votre question dans le mémoire. On vous signalait que, dans la province de Québec, l'indépendant, donc le marchand du coin, l'indépendant de la province de Québec, comme ailleurs, est devenu un marchand; dans bien des cas, le propriétaire d'un marché du coin a la production d'un magasin du coin—

M. LEFEBVRE: Le magasin à chaîne?

M. BOISVERT: Lui, avec le magasin du coin, continue de conserver, dans la province de Québec, 70 p. 100 du volume, c'est-à-dire qu'il y a une place pour lui, mais à une condition, c'est qu'il continue son système d'améliorer ses méthodes d'opération, en appartenant à un groupe, en faisant de la publicité—c'est indispensable; la publicité, c'est l'élément indispensable au commerce dans le système compétitif, et dans le système de la libre entreprise; avoir quelque chose, c'est ne rien avoir, si l'autre ne le sait pas; savoir quelque chose, c'est ne rien savoir, si l'autre ne sait pas qu'on le sait; pour le dire, ca coûte quelque chose.

M. LEFEBVRE: Premièrement, pensez-vous qu'un magasin du coin peut faire concurrence aux magasins à chaîne?

M. BOISVERT: Absolument—en prix?

M. LEFEBVRE: Oui, en prix.

M. BOISVERT: On lui permet, par notre entrepôt, les épiceries Presto Limitée, d'acheter au même prix que nos clients. La même question a été posée ce matin: comment se fait-il qu'on peut acheter à meilleur marché à l'entrepôt "cash and carry" qu'à l'entrepôt principal? C'est bien simple. Je répète ce que j'ai dit dans notre mémoire: on supprime les frais de vente, on supprime l'assemblage, et il le fait lui-même; on supprime la livraison et toute la comptabilité, et on passe cette économie au détaillant. Si on avait un prix coûtant, plus 3 p. 100, peut-être que ça coûterait plus cher à la chaîne coopérative, laquelle fait fonction de gros, et la livraison à ses magasins; ça coûterait peut-être plus cher, du point de vue prix, si on faisait une concurrence comme celle-là.

M. LEFEBVRE: Merci. Maintenant, est-ce que les manufacturiers font une contribution, pour payer vos frais de publicité?

M. BOISVERT: Dans quel sens voulez-vous dire?

M. LEFEBVRE: Les annonces de journaux, la télévision, la radio?

M. BOISVERT: Il nous permettent de participer, pourvu qu'on fasse la promotion de leurs produits; on partage les frais de publicité, il faut partager le coût de publicité en parallèle, par exemple.

M. LEFEBVRE: Dans votre total des frais de publicité, est-ce que ça contient le montant qui vous est payé par les manufacturiers?

M. BOISVERT: Vous dites «les frais de publicité»?

M. LEFEBVRE: Oui.

M. BOISVERT: Non, c'est le coût brut. Le coût aurait été moindre. Quand on nous a demandé de l'indiquer, qu'on nous a demandé de faire connaître les frais de publicité, on a donné ces informations; on a supposé que c'était cela que vous vouliez savoir.

M. LEFEBVRE: Voulez-vous expliquer pourquoi vos marques se vendent à plus bas prix que les marques reconnues nationalement? Je veux dire que—

M. BOISVERT: M. Carrière va répondre à cette question.

M. CARRIÈRE: Comme M. Boisvert l'a mentionné dans son mémoire, on a très peu de marques; ça constitue une très faible partie de notre volume. Si vous prenez, par exemple,—on vend un café instantané sous notre propre bannière, c'est-à-dire la marque de notre bannière; on est en mesure d'acheter ce café à environ 33⅓ meilleur marché, que des marques nationales, annonçées à ou-

trance; la différence de prix peut varier entre 30 et 35 pour 100, si vous voulez, sur une ligne comme le café; je peux difficilement parler d'autre chose.

M. LEFEBVRE: Donc, ce serait 33 pour 100 plus cher?

M. CARRIÈRE: Meilleur marché; on est en mesure de l'acheter meilleur marché, à 35 p. 100 meilleur marché que les marques nationales.

M. LEFEBVRE: Est-ce qu'on pourrait dire que la publicité augmente les prix de $\frac{1}{3}$ dans le café?

M. CARRIÈRE: C'est une question que le manufacturier pourrait vous répondre.

M. LEFEBVRE: J'aimerais une réponse quand même. Merci.

M. COUVRETTE: Est-ce que je pourrais ajouter quelque chose? J'ai lu dans des rapports de journaux que plusieurs témoins ont répondu à certaines des questions de ce genre-là, et je me dis ceci: on dit que lorsqu'on fait mettre des produits en boîte, sous sa propre marque, par un fabricant de marques nationales, qu'il revient à meilleur marché, que ça lui épargne des frais de publicité, etc. Oui, nous l'obtenons de la sorte, à meilleur marché, et ça nous permet de vendre à meilleur marché. A mon sens, ça reste vrai, dans l'état actuel des choses; c'est-à-dire que tous ceux qui en ont parlé, des marques privées, dans tous les cas, c'est un assez petit pourcentage de leurs ventes.

Je suis d'opinion,—c'est peut-être assez personnel, mais je le soumets,—que c'est peut-être une sorte de "dumping",—une sorte de "dumping", à ce moment, que fait le manufacturier, le fabricant, n'est-ce pas, dont tous les frais sont établis par le rendement de sa marque personnelle. Il peut se permettre ce "dumping"-là, par conséquent ne chargeant pas le coût de cette production au reste de sa production. Mais, ce que je veux faire là, c'est s'il fallait concurrencer en multipliant à l'infini les marques privées, en augmentant leurs proportions au-dessus de cet équilibre; je ne sais où ça existe le "break-even point".

M. LEFEBVRE: Peut-être que cela changerait de bord?

M. COUVRETTE: A ce moment-là, ça pourrait revenir à beaucoup plus cher pour les marques privées. Là, c'est simplement une question d'opinion. Je ne vois pas comment ils peuvent faire des concessions aux autres, lorsqu'ils ne leur vendent pas à eux, même lorsqu'il s'agit de leurs propres marques, dans l'ensemble.

M. LEFEBVRE: Merci.

Co-Chairman Mr. BASFORD: Mr. Olson?

Mr. OLSON: Mr. Chairman, I would like to ask the witness a couple of questions, but at the outset I wish to commend him for the table or appendix he has provided for us, which, for instance, shows "Cost prices ex receiving docks or ex-car", and "Selling prices f.o.b. our warehouse" and "Gross margin".

I was not here when you were starting to read the brief. I came in later and therefore missed that part. I take it that out of the 2.2 per cent gross margin on tomato juice from Bright-Libby, and all the other percentages given, you pay for your salaries, occupancy costs, and so on, out of 2.2 per cent?

Mr. BOISVERT: Sir, these are samples of fast moving items, staples, of the most competitive character and such are the margins at which we have to sell them to be competitive.

I will make up for your missing part of the brief while it was being read, by stating that in answer to Dr. James' question on how we arrive at our prices, how we control the competitive aspect of our prices, I did say that ours is a price list which is net, meaning that it is made up of the cost price before gross discount, plus a margin that is very competitive on the fast moving items, but that is slightly higher in products which are less in evidence, the sales mix yield, the gross and net profits we enjoy, in fact, they are part of a strategy.

Mr. OLSON: But in all of these items are the ones listed at the lower end, if I may put it that way, of the gross margin?

Mr. BOISVERT: Yes, sir, they have to be lower or there would be no gross profit at all.

Mr. OLSON: I understand that; but I am almost surprised, if I may put it that way, that you are able to operate with such a low gross margin of 2.2 per cent, and 1.2 per cent, and 1.4 per cent, and some as high as 3 per cent, but very few, and I am suprised that you have any net at all.

Mr. BOISVERT: Apart from this gross profit we have the cash discount that is not counted in there. It is 1 per cent, sometimes $1\frac{1}{2}$ per cent. The cash discount is right next to the selling price f.o.b. our warehouse—$3.77 for the first item, less 1 per cent, and that would reduce that to about 1.2 per cent.

M. CARRIÈRE: Je suis peut-être un peu plus versé dans ce domaine-là, parce que c'est ma responsabilité. Je comprends que monsieur soit un peu decontenancé de voir que nous travaillons sur des bases aussi basses que celles-là, mais il faut tenir compte que, pour notre prix coûtant, il y a d'abord les escomptes pour paiement comptant, ou paiement à 10 jours, si vous le voulez, et une certaine ristourne de quantité que nous obtenons à la fin de l'année si on se qualifie pour le faire. Alors, ces escomptes comptant et ces ristournes de quantité-là, plus un produit des ventes de publicité coopérative qui nous reste après avoir participé aux programmes, augmentent naturellement le prix qui est là, d'autant. Est-ce que vous comprenez?

M. BOISVERT: Does that answer you, Mr. Olson?

Mr. OLSON: No. By the way, the translator is having a little difficulty hearing the witness.

Co-Chairman Senator CROLL: Is it fair to say that these items turn over about 12 times a years?

Co-Chairman Mr. BASFORD: Excusez. Could you speak more closely to the microphone?

M. CARRIÈRE: Voici, ce qui est mentionné dans la colonne, ce sont les profits bruts que l'on fait sur les marchandises, en tenant compte que notre prix coûtant ne comprend pas les escomptes comptants, et des gains marginaux qui sont de 1.4 p. 100 dans l'ensemble.

Mr. BOISVERT: Does that answer you?

M. CARRIÈRE: Les profits mentionnés sur les items qui sont donnés comme échantillonnages, ici, sont des profits réguliers sur ces items-là. Nous marchons sur cette base de profit, que nous n'avons pas choisie. Actuellement, ce sont les prix que l'on vend, et le prix coûtant qui ne comprend pas, comme je vous le disais tout à l'heure, les escomptes comptants et certains autres bénéfices marginaux se montent à 1.4 p. 100, et, si on prend le premier item, qui est du just de tomate, il reste un profit de 2.2. Si vous voulez avoir la base, le prix brut net combiné, tout ce qu'on retire, serait de 3.6.

Mr. BOISVERT: Does that answer you?

Mr. OLSON: I am not sure. I want to be sure we agree on what is included in what you call "cost prices ex receiving docks or ex-car". All this is the total cost that you pay, for example, in this case of tomato juice—the total for all cost of getting this up to your warehouse or the car that is spotted at your warehouse?

M. CARRIÈRE: Absolument, c'est le coût «X» qui est payé à la réception.

Mr. OLSON: And in the column of "selling prices", this is the actual price that you use to invoice your customers, as you say, f.o.b. your warehouse?

M. CARRIÈRE: Oui, vous avez parfaitement raison, c'est comme vous le dites.

Mr. OLSON: I think Co-Chairman Senator Croll's question got lost during this discussion. How fast or how often would these various items turn over in your warehouse? Would it be 10 to 12 times a year?

M. CARRIÈRE: Si on considère le premier item, si vous le voulez, qui est du jus de tomate, peut-être que dans le cas du jus de tomate, je dirais que l'on tourne notre stock au moins 48 fois par année.

Mr. OLSON: Forty-eight times the amount of your inventory.

M. LEFEBVRE: Vous faites votre inventaire une fois par semaine?

M. CARRIÈRE: J'ai mal compris la question. J'ai mentionné qu'on faisait des achats au moins 48 fois par année sur le jus de tomate; cela ne veut pas dire nécessairement que nous tournons notre stock. Je crois que notre virement de stock est de 25 à 28 fois par année.

Mr. OLSON: Your volume of sales, then, would be, if I understand it correctly, 25 to 28 times the value of your average inventory?

Mr. CARRIÈRE: Yes, it may be.

Mr. BOISVERT: For this item only.

Mr. OLSON: Would you have any idea what the average for the so-called fast-moving items would be? If you have not got any calculation, you cannot answer that question?

Mr. BOISVERT: We have an average turn of our inventory, of about 20 turns.

Mr. OLSON: Twenty turns annually. Thank you. I appreciate your offer to provide us with your cost prices and selling prices, that is, the cost price to you and your selling prices, on the same items that are in the D.B.S. list, and we will wait for that. Do you have any idea how many items you have in your operation, separate items that you have for sale?

M. CARRIÈRE: Je crois que ça peut, actuellement, je ne les ai pas comptées récemment, mais ça peut varier de 4,500 à 4,700.

Mr. OLSON: Four thousand five hundred to four thousand seven hundred. Has this substantially increased recently?

M. CARRIÈRE: Non, je ne crois pas, c'est une moyenne que nous tenons à conserver. Il y a beaucoup de nouveaux produits qui nous arrivent, par contre, nous en éliminons dans le but de maintenir notre inventaire à ce nombre de produits-là.

Mr. OLSON: How many of these 4,500 or 4,700 items could be classified as non-food items?

Mr. CARRIÈRE: Eh—

Mr. OLSON: The next question, of course, I am going to ask you, you will note is—

Mr. BOISVERT: I will answer this question. You are exploring. Am I getting you aright in thinking that you want to explore our participation or non-participation in a non-food program?

Mr. OLSON: Right.

Mr. BOISVERT: We are not.

Mr. OLSON: You do not sell—

Mr. BOISVERT: All that we sell that is not food, as yet, are grocery items, such as soap, floor cleaners—they do not grow as food as such.

Mr. OLSON: You do no stock such things as kitchen utensils, light bulbs?

Mr. BOISVERT: No, we are not involved in a non-food program yet.

Mr. OLSEN: I would like to turn you now to the last point in page 7 of your brief, under the heading "Cash and Carry Outlets". You say that you are able to

operate this kind of operation for a smaller food store, substantially cheaper, because you eliminate the expense of selling delivering, order assembling and documentation and so on. But do you not add something to the cost of distribution, because for example I presume that you sell in less than case lots in this kind of operation?

Mr. BOISVERT: Yes, sir, we do.

Mr. OLSON: And I presume that you have to do a little better jo, or perhaps there is some expense in unpacking and displaying, that you would not get in a straight warehouse operation?

Mr. BOISVERT: No sir, there is no appreciable extra labour cost involved in cutting cases. It is a turn of the knife and the case is split in two. I am not too sure that sometimes the customers do it themselves.

Mr. OLSON: But if a customer comes along and takes one case or a portion of a case, of any given commodity, you must have somewhere in your warehouse to put it back, to restock the shelf, in other words?

M. CARRIÈRE: Pour répondre à votre question. En tant que le nombre, que la quantité de demi-caisses vendues est concerné, dans l'ensemble, c'est plutôt minime, et, dans le but de ne pas congestionner, si vous le voulez, le trafic, la plupart du temps nos hommes coupent eux-mêmes les caisses et les mettent à un endroit où quelqu'un peut les prendre facilement. Mais, on ne vend pas moins qu'une demi-caisse. En d'autres termes, si quelqu'un voulait un quart de caisse, ou un quart de douzaine, nous ne vendons que des demi caisses ou des caisses complètes.

Mr. OLSON: Even so, you do not run these cash and carry warehouses or merchandising units in the same warehouse where you distribute for your larger customers, do you?

Mr. BOISVERT: No.

Mr. OLSON: Therefore, it is a separate operation. You would have to have it assembled and displayed in such a way that a merchant could go around your merchandise, however you have it displayed, and pick up his requirements?

Mr. BOISVERT: Right.

Mr. OLSON: Even though it would be in larger quantities, it would be something like a supermarket?

Mr. BOISVERT: That is right.

Mr. OLSON: Presumably some cost is involved in maintaining this in its condition, first of all to make it physically possible for a merchant to find his requirements. When he takes away a case or half a case, someone has to go back there, where you sell, even if you sell 10 cases at a time, to put back a fresh supply. Would not this be additional cost of handling?

M. BOISVERT: Not to us. The only costs involved with us are (a) the order assembly at our central warehouse, and (b) the delivery to the cash and carry outlet.

Mr. OLSON: Yes?

Mr. BOISVERT: In the cash and carry outlet, his only labour involved is placing the items of merchandise in their rotation and checking them off at the check-out counter. That is the sum total of the labour involved at both places.

Mr. OLSON: You say that there is a saving. How much?

Mr. COUVRETTE: May I add something please. Ces sortes de magasins, il faut bien s'en rendre compte, sont surtout à la disposition des acheteurs en petite quantité, qui, eux, seraient infiniment plus coûteux à servir dans un entrepôt complètement mécanisé et moderne comme notre entrepôt principal, et qui n'exigent pas du tout la même sorte de service pour ces sortes de commandes, ce

que ces petits clients pourraient coûter si nous avions de 6 à 8 entrepôts comme notre entrepôt principal, alors qu'en établissant des dépôts de distribution, que nous appelons des épiceries Presto, nous parvenons à couper le coût de livraison des marchandises de notre entrepôt central à ces entrepôts de distribution, par le fait qu'ils se servent eux-mêmes pour les commandes de petites quantités qu'ils achètent. Ce n'est pas la même sorte de clients que ceux que nous appelons des clients de base desservis par les deux entrepôts principaux. L'entrepôt principal sert à servir les clients qui commandent en quantités importantes parce que, alors, dans la plupart des commandes, il y a une économie due à la mécanisation qui peut apporter tous ces profits. Tandis que la petite commande ne peut pas être assemblée au moyen de machines mais doit être assemblée à la main, ce qui la rend infiniment plus coûteuse. C'est cette partie de la commande que nous transférons à ces dépôts de distribution que nous appelons Presto; nous les transférons là. Ils se servent eux-mêmes. It's a self serve for small orders.

Mr. OLSON: For small orders, how do the prices compare?

Mr. COUVRETTE: At both ends they are the same price.

Mr. OLSON: It is the same price in the warehouse?

Mr. COUVRETTE: Yes, except that at the main warehouse, in the case of the largest orders, $800 and over, we give a discount of 1 per cent which we do not give at the other place.

Mr. OLSON: Yes, I noticed that. Just one last question: how much do you say it costs selling by this method over servicing the same accounts, if they were served out of your other warehouse? I think you said it was something like 4 to 5 per cent. Do you know?

Mr. COUVRETTE: May I have the question again, please?

Mr. OLSON: Well, assuming that you serviced all of these smaller accounts from your regular warehouse, you would have a certain cost of doing so as a percentage of sales.

Mr. COUVRETTE: Yes.

Mr. OLSON: How much do you save by doing it on a cash and carry basis?

Mr. COUVRETTE: We have no figures to answer with, but it is our opinion that it would be very near 5 per cent more.

Mr. OLSON: I thought I had heard you say that in these cash and carries, and correct me if I am wrong, your price was something like cost plus 3 per cent. Is that not right?

Mr. COUVRETTE: No. The answer that was given to you was, in fact, the gross margin that we obtained out of them.

Mr. OLSON: You obtained out of them the cost plus 3 per cent.

Mr. COUVRETTE: The gross margin.

Mr. OLSON: The gross, yes.

Mr. COUVRETTE: Gross profit.

Mr. OLSON: That is all, Mr. Chairman.

Co-Chairman Mr. BASFORD: Mr. Leblanc.

M. LEBLANC (*Laurier*): Monsieur le président, je tiens d'abord à féliciter la Maison Couvrette et Provost de la façon qu'ils ont déposé leur mémoire devant nous.

Ma première question serait à l'effet: est-ce qu'il y a une association qui groupe, au Canada, ou au Québec, les distributeurs en gros, comme vous êtes, d'ailleurs?

M. Boisvert: Il y a deux associations d'épicerie en gros au Canada. Il y a l'Association nationale, qui porte le titre d'Institut canadien de la Distribution alimentaire,—Canadian Groceries Distributors Institute. Il y a aussi l'Association des Épiciers en gros de la province de Québec.

M. Leblanc (*Laurier*): Est-ce que cette association, ou ces deux associations, vous demandent de déposer des chiffres, et publient par la suite, des chiffres comparatifs entre les membres de l'association?

M. Boisvert: L'association nationale offre ce service d'échange de chiffres d'opération pour fins de comparaison, sur une base anonyme, sur une base cotée, pour alerter les membres quant à leur efficacité ou leur déficience à diverses phases de l'administration.

M. Leblanc (*Laurier*): Comment pourriez-vous vous classer dans le commerce de distribution en gros avec vos compétiteurs, selon les chiffres d'affaires que vous faites, est-ce que vous seriez en sixième position, septième position, huitième position?

M. Boisvert: Quant à quoi, monsieur Leblanc?

M. Leblanc (*Laurier*): Quant au volume?

M. Boisvert: Quant au volume, dans la province de Québec, je crois que nous nous logeons tout près du sommet, comme grossistes indépendants.

M. Leblanc (*Laurier*): Oui, oui, c'est ça. Est-ce que vos clients sont des clients sous contrat avec votre maison, c'est-à-dire, qu'ils sont obligés d'acheter seulement de vous, et qui portent une raison sociale identifiant vos produits en même temps?

M. Boisvert: Ils sont affiliés à nos différents groupes. Nous en avons quatre, que je vous nomme: les magasins F.D.L., qui représentent Foire de l'alimentation,—en anglais, Food Fair,—au nombre de 48 magasins. Les marchés Métropoles au nombre de 144. Les magasins Coronets, au nombre d'une cinquantaine. Dans la Mauricie, aux Trois-Rivières, les magasins Régal, au nombre de 40.

M. Leblanc (*Laurier*): Est-ce que les clients ont un contrat avec vous en exclusivité, ou s'ils peuvent acheter ailleurs?

M. Boisvert: Ils ont une entente avec nous selon laquelle la compagnie s'engage à leur rendre certains services, qui sont énumérés au mémoire, et selon lesquels ils s'engagent, eux, à porter correctement et honorablement la bannière que nous leur offrons. De plus, ils s'engagent à concentrer leurs achats le plus possible chez-nous.

M. Leblanc (*Laurier*): Si je comprends bien, vous êtes une compagnie publique sur le marché?

M. Boisvert: Oui, monsieur.

M. Leblanc (*Laurier*): Est-ce que c'est exact?

M. Boisvert: Oui, monsieur.

M. Leblanc (*Laurier*): Alors, je vois, selon le bilan que vous avez publié, le rapport annuel de 1966, que le rendement de l'avoir des actionnaires est passé de 7.93 p. 100, en 1963,—qui, je crois, était la première année de votre fusion entre les deux organisations,—et, est passé à 12.53 p. 100, en 1964, 13.94 p. 100 en 1965, et 15.14 p. 100 en 1966, alors que, entre-temps, votre pourcentage de profits nets ne semble pas avoir augmenté, d'après les chiffres que vous nous donnez ici, si nous faisons la comparaison avec vos ventes, il est demeuré à à peu près 0.6. Alors, ce que j'ai un peu de difficulté à comprendre: comment le rendement de l'avoir des actionnaires peut augmenter quand votre pourcentage de profits nets reste à peu près stable, ce qui est de 0.6?

M. Couvrette: Bien, les ventes augmentent sur un pourcentage identique et, selon qu'il y a de plus grandes ventes, donc, l'avoir augmente. Maintenant,

quand vous dites que notre compagnie s'est fusionnée, en 1963, elle s'est fusionnée en 1961, mais ce n'est qu'en 1963 qu'elle a été réunie sous le même toit dans un entrepôt moderne. Nous étions des maisons complètement séparées précédemment, dans des entrepôts que nous appelons, maintenant, désuets, et afin de pouvoir obtenir l'efficacité désirée, il a fallu, comme dans toute entreprise qui commence, y mettre un peu de temps; une fusion, c'est un peu comme un mariage, il faut que les choses s'ajustent. Alors, la première année, en 1963, n'est pas une année que nous pouvons prendre comme un résultat raisonnable. En 1964, entre 1964 et 1966, il y a 2.6, 2.7 de différence seulement, et c'est simplement, dans le même ordre d'idées, c'est quand même la continuation d'une meilleure efficacité à mesure que nous avançons, n'est-ce pas, dans notre affaire. Maintenant, je crois,—est-ce que cela répond à votre question?

M. LEBLANC (*Laurier*): Oui, assez bien, merci.

M. COUVRETTE: Je ne crois pas, n'est-ce pas, que nous puissions considérer l'année 1963 d'une manière réaliste, et la comparer aux autres années, dans les circonstances où se trouvait notre compagnie.

M. LEBLANC (*Laurier*): Votre profit brut, qui est parti de 4.61 en 1963, a changé à 3.90 en 1964, à 3.83 en 1965, et 3.47 en 1966, est attribuable surtout,—le chiffre que l'on y voit, ou le profit brut, est-il supérieur pour des maisons comparables à la vôtre; ou est-ce qu'il est bien dû aux ventes que vous faites dans le «cash and carry», dû au fait que vous essayez plutôt d'atteindre le volume et faire du profit en chiffres absolus sur le volume, que d'essayer d'aller chercher plus de profits bruts que de volume?

M. COUVRETTE: Oui, c'est évidemment la première réponse que vous avez donnée vous-même qui est la bonne. Maintenant, évidemment, il faut tenir compte du fait aussi qu'il n'y a pratiquement que deux maisons de notre genre qui existent, complètement comparables. Nous, nous ne faisons vraiment affaires qu'avec des marchands indépendants exclusivement. Nous avons un bon nombre de marchands indépendants, relativement plus petits qu'un certain nombre de compagnies qui ont des affiliés comme nous, de sorte que ceci a plus de tendance à ce que nous nous procurions un revenu provenant strictement d'une opération de gros. Dans d'autres compagnies, vous avez un mélange de résultats qui provient de ventes aux affiliés et de ventes aux magasins qui leur appartiennent, qui sont la propriété des grossistes également, de sorte que vous avez, dans un cas, le résultat de ces profits au détail, en partie, et ceci est de nature, du moins, c'est ce que nous constatons à chaque fois que nous comparons notre rapport avec le rapport des autres compagnies, ceci semble de nature à augmenter les profits qu'il ne serait pas possible d'atteindre, même si nous le voulions, dans le cas de notre compagnie.

Maintenant, je voudrais dire ceci, puisque nous sommes sur le sujet, somme toute, nous concevons notre rôle comme ceci: nous ne sommes qu'un pur intermédiaire, c'est vrai, Je suis né, et j'ai grandi dans l'alimentation, car c'est mon père qui a fondé une des deux maisons fusionnées. J'ai toujours entendu dire, accuser les intermédiaires, pas de nos jours, pas dans les derniers temps, mais dans nombre d'années par la suite, que nous pourrions nous passer des intermédiaires, mais, de par la nature des opérations que nous tenons, cela est impensable. Si ce n'était pas utile, nous n'existerions pas, et il n'y aurait pas de marchand en concurrence, mais il n'y a pas d'organisation, ou de maison qui serait assez stupide pour venir payer plus cher chez-nous pour avoir les services que nous leur rendons. C'est pourquoi il est plus vrai de dire que nous rendons les services d'une façon plus économique aux marchands que nous servons, et nous conservons notre rôle tellement dans ce sens-là et, quand nous pensons à notre affaire, nous pensons ipso facto aux marchands indépendants en même temps, parce que nous considérons que nous ne faisons qu'un, lui et nous, que

son succès est nécessaire pour notre survie, et que, sans son succès, nous disparaissons, et que nous nous pouvons rester là à condition de garder nos produits le moins cher possible. Tout ce qu'il nous reste, ce'st de réaliser une marge de profit suffisante pour rendre tous les autres participants heureux.

M. LEBLANC (*Laurier*): Est-ce que, monsieur Couvrette, si les distributeurs en alimentation, comme votre maison, n'existaient pas, est-ce que les fabricants pourraient distribuer directement aux détaillants, et est-ce que cela pourrait se faire par une autre méthode,—tout cela, naturellement, est hypothétique,— est-ce qu'il y aurait de l'économie pour le consommateur?

M. COUVRETTE: Messieurs, d'abord, le choix existe actuellement pour le fournisseur de le faire, s'il n'y avait pas même un bénéfice à retirer pour la distribution de leurs produits, ce n'est pas par charité qu'ils le font, ils le prendraient ce bénéfice-là. C'est pourquoi, imaginez-vous, nous avons dit tout à l'heure que nous avions de 4,500 à 4,700 lignes de produits, qui nous proviennent de 7 à 800 distributeurs différents. Cela voudrait dire, par conséquent, que l'épicier qui n'achète que la moitié de ces produits, devrait recevoir 400 fournisseurs, au lieu de recevoir la même commande que nous lui livrons, dans une seule fois. Il me semble que nous n'avons pas besoin de vous faire un dessin trop concret pour expliquer ce que cela signifierait, ce qui serait une impossibilité. D'ailleurs, les chaînes coopératives sont des détaillants, et vous pouvez penser, peut-être, à première vue, qu'ils éliminent les entrepôts de gros. Ce n'est pas exact. Elles ont toutes leurs entrepôts de gros, et elles desservent tous leurs magasins par l'entrepôt. Il faut qu'ils passent par l'entrepôt. Je crois que c'est ce que nous sommes vis-à-vis des indépendants. Mais, les magasins à chaîne coopérative procèdent de leur entrepôt principal pour desservir leurs magasins.

M. LEBLANC (*Laurier*): Merci. Merci, monsieur le président.

Me JOYAL: Je ne sais pas si ma première question devrait s'adresser à M. Couvrette, parce que je crois que vous avez déjà fait partie d'une enquête royale sur la question de la disparité des prix.

M. COUVRETTE: Je tenais l'autre bout du bâton.

Me JOYAL: Maintenant, à cette occasion-là, vous en êtes venu à des conclusions en ce qui concerne le processus stagiaire entre le producteur, d'un côté, et le consommateur de l'autre; est-ce que vous pourriez nous dire jusqu'à quel point la situation, de nos jours, aurait changé depuis la période de votre enquête, qui date, je crois, de 1957?

M. COUVRETTE: Oui. Dans le rapport, publié en 1959, bien, nous avons fait une enquête par tout le Canada, c'était la Commission Andrew Stewart. Nous avions le bénéfice, à ce moment-là, de deux enquêtes sur les mêmes sujets, qui est sur l'écart des prix entre le producteur primaire et le consommateur; nous avions donc, dis-je, le bénéfice de deux enquêtes: l'enquête Curtiss, je crois, aux environs de 1947-1950, et l'enquête Stevens; c'étaient les mêmes sujets. C'est toujours la même vie, les mêmes estomacs et les mêmes besoins dans l'alimentation qui existent, ainsi que les mêmes problèmes qui ont tendance à varier selon l'évolution des temps, mais d'une façon plus ou moins grande. A ce moment-là, nous avons fait l'impossible pour tâcher d'expliquer cette disparité qu'on décrit toujours entre le prix que reçoit le producteur primaire pour son produit, et le prix que paye le consommateur quand il est rendu là. Évidemment, il y a eu certaines anomalies qui ont été signalées dans les trois volumes du rapport. Il n'y a pas eu de conclusion sociale tirée au cours de cette enquête. Je dirais que la principale revenait quand même, encore, à la recommandation de tenter d'éduquer le consommateur,—c'est un mot que l'on a entendu aujourd'hui, et l'autre jour ici. C'était vrai en 1959.

Je relisais hier nos conclusions d'alors, nos recommandations, ce que j'avais écrit, moi-même j'avais soumis un rapport minoritaire sur un point, et afin de me rafraîchir la mémoire. Il est évident que tous, tant que nous sommes, que quelqu'un parfois serait porté à changer un peu certaines idées, mais, dans l'ensemble, je puis dire qu'il n'y a à peu près rien à changer de ce qui était dit dans ce rapport-là. Maintenant, les conclusions sont nombreuses, je ne pense pas que je doive les lire.

Me JOYAL: On ne vous demande pas de résumer les conclusions de ce comité-ci.

M. COUVRETTE: On demandait, en outre, des statistiques plus adéquates. Je ne sais pas jusqu'à quel point cela existe depuis ce temps-là, plus adéquates de façon à permettre tout participant de la distribution alimentaire de les utiliser. On recommandait des services d'information plus complets tant vis-à-vis du distributeur, à tous les niveaux, que des consommateurs. C'était, à peu près, les principales.

Me JOYAL: Mais, vous avez parlé tout à l'heure de cette nouvelle tendance où en essayant de faire concurrence, les chaînes coopératives voient à instituer un réseau de magasins affiliés...

Mr. OLSON: I wonder if I could ask a supplementary question?

Co-Chairman Mr. BASFORD: Yes, Mr. Olson.

Mr. OLSON: I think you said the result of these other price spreads inquiries was to come back to the same thing, to try to educate the consumer?

Mr. COUVRETTE: The last one of some of the points advanced on the occasion of this.

Mr. OLSON: Do you mean, to educate the consumer, the housewife to do a better job of shopping in price and total budget, or to educate her that she is not paying too much for food?

Mr. COUVRETTE: To be a better buyer.

I forgot one point. I forgot to add this, that you must realize that we are in the midst of the most competitive possible business that can exist—except, maybe, elections, at times too; but we are in that sector of the economy where it is the thing that is used the most. We can do without everything except food, if you push it to the extreme. Being there, if competition is something which exists, it is at our level that it does exist. Furthermore, as watchers we have the consumer watching us and judging us. I think they do a very fair job of watching us. When I say "us", I mean the distributors as a whole. But still amongst all the efforts that are made towards inducing the consumer towards certain things, against which some raise some objections—that is very vague, but that is what it means. There might be quite a section of the consumers to educate those to do it avec plus de discernement—

Mr. OLSON: I understand.

Mr. COUVRETTE: Because as it was pointed out in our brief, it seems that with $18, or thereabouts, of goods you can get just as good nutritive value, and possibly as tasty value too, as anyone would get with $35, if she knows how to choose. So, it is a matter of education, but it is also a matter of choice and freedom, and there is this today. In all this realm of competition in which we are, I think that the consumer has a choice like nobody else has anywhere else. There are all kinds of stores, all kinds of goods, all kinds of things at their disposal, all kinds of specials, all kinds of prices, all kinds of services—and if someone wants to go to a very nice supermarket where there is a very nice musical instrument, with perfume and so on, and mechanical horses to put the children on, and so on, it is their choice, after all, because next door or in the next block there is another kind of store that does not have all those things.

Mr. OLSON: The only point I want to make is that in this education of the consumer, if you have more or less decided that this is about all that can be done and you cannot change the prices, we would either have to educate her to make a better deal or accept she is getting fairly good value for what she is paying, or she is getting what she is asking for. This will not change substantially the price of these food items.

Mr. COUVRETTE: Of course, I do not think it has been necessarily proven yet that food prices are too high. They may be considered high. It might be a costly thing, according to present-day budgets, for anybody to buy food, but there is no definite proof. I do not say it is not proved; it is not definitely proved yet that it is too high.

Mr. BOISVERT: Mr. Chairman, may I have a supplementary on top of my president too?

Co-Chairman Mr. BASFORD: Please do.

Mr. BOISVERT: You asked whether we could educate "Mrs. Consumer" to do a better job of buying or to explain she is getting a good bargain. Much has been said about rising prices, but I submit to this committee that not enough has been told of the 12.9 per cent increase in salaries as between July of last year and July of this year, and indicating at least in part that a substantial portion of the contracts have been renewed all at once, that they are at the basis of a great chunk of the increase, not only in food prices but generally. Perhaps that ought to be brought in too.

At the same time I am in sympathy with those whose salaries perhaps have not yet reached or enjoyed the 12.9 per cent increase, and whose budget could best be helped by the suggestions advanced in the brief by the Canadian Association of Consumers, etcetera.

Mr. JOYAL: You mentioned about the cost increases involved in your labour and personnel of 12 per cent from year to year. Your net profits in 1966 increased by 23 per cent, and your net profits in the previous year, from 1965 to 1966, increased by 26.1 per cent. It is a cumulative total of about 50 per cent increase in net profits over two years. I think these figures are pretty meaningful. Of course, you are in business to make money.

M. COUVRETTE: Oui, c'est évident. Mais, voici ce qu'il faut remarquer: il faudrait partir de deux comparables; dans notre cas, c'est une compagnie qui n'a pas cinq ans d'existence complète encore.

M[e] JOYAL: Non, mais c'est une compagnie...

M. COUVRETTE: Je comprends, mais vous partez d'une situation de base nécessairement coûteuse, au début. Quand vous parlez de différence, sur les pourcentages, ça ne signifie pas grand-chose, parce que les chiffres du début étaient très bas,—que ce serait trop haut, aujourd'hui, et trop bas alors; une compagnie qui commence doit commencer à marcher, avant de courir.

M[e] JOYAL: Je suis bien prêt à oublier l'année 1963, qui est l'année du début, où votre pourcentage s'élevait à 7.9; nous oublions cette année basse, et prenons 1964 où il y a une augmentation de 12½ p. 100,—qui est aujourd'hui 15.1 p. 100, qui est une augmentation, sur une base de pourcentage, qui est très considérable?

M. COUVRETTE: Voici, si vous permettez, c'est pour l'année 1966. En 1964, notre augmentation n'est pas venue uniquement de ses propres ailes; elle est venue à la suite d'acquisitions faites en 1964, qu'il a fallu intégrer à nos opérations, ce qui était coûteux. Encore là, disons, les chiffres de 12.53 sont peut-être un peu bas, pour faire une comparaison avec 15.14,—ce qui ne signifie pas que 15.14 n'est pas matière d'appréciation, à savoir si c'est trop ou raisonnable; c'est une autre question. Mais, quand vous parlez de comparaison,

de deux années, vous ne comparez pas exactement la même compagnie, à cause du fait que nous venions de venir au monde; si nous avions 25 ans d'expérience, la situation serait différente.

Mᵉ JOYAL: Oui, on veut prendre tout en considération; mais, la question de vous affilier,—est-ce qu'il existe une entente contractuelle avec vos affiliés?

M. COUVRETTE: On signe des franchises; nous appelons ça des affiliés volontaires. Dans l'ensemble, c'est une question de loyauté, plutôt que d'un contrat.

Mᵉ JOYAL: Est-ce qu'ils demeurent volontaires, ou est-ce qu'on leur impose, par exemple, l'achat de toutes leurs provisions?

M. COUVRETTE: Nous tentons de leur expliquer qu'il est dans leur intérêt de coopérer le plus possible avec nous, en achetant leurs produits chez-nous, mais nous ne l'imposons pas parce que, même si, selon la franchise signée, nous aurions un droit légal, aléatoire probablement, qu'ils se tiennent strictement aux clauses de ce contrat, jamais il ne s'est présenté un cas où on l'a fait; ce n'est pas faisable.

Mᵉ JOYAL: Auriez-vous l'obligeance de nous produire, si vous n'aviez pas une copie ici,—une copie conforme d'un de ces contrats?

M. BOISVERT: Avec plaisir.

Mᵉ JOYAL: Maintenant, pour la compagnie,—et j'admets bien que si on regarde le tableau des statistiques pour les quatre dernières années, c'est une société,—la compagnie Couvrette et Provost, qui a eu un essor formidable; on pourrait citer des statistiques, une augmentation de vos ventes, de 71 p. 100, et l'augmentation de vos profits nets d'environ 200 p. 100, une augmentation du rendement, si on se sert de 1963 comme 100 p. 100,—une augmentation de vos dividendes à vos actionnaires, d'environ 300 p. 100 d'une classe d'actions et environ 80 p. 100 pour l'autre. A tout événement, il y a eu un essor considérable qui rapporte à votre compagnie, sur une marge de pourcentage, des profits nets au total de vos ventes—une marge en pourcentage, aux environs de 0.6 p. 100.

M. COUVRETTE: Oui.

Mᵉ JOYAL: Alors, je pose cette question: est-ce qu'il existe, dans votre compagnie, Couvrette et Provost Limitée, un actionnaire majoritaire?

M. COUVRETTE: Oui,—c'est-à-dire, pas un, mais. . .

Mᵉ JOYAL: Est-ce qu'il existe des actionnaires principaux?

M. COUVRETTE: Oui; les actions sont divisées en deux sortes: des parts communes, et des parts «A» sur la Bourse. Les classes communes, dans la classe «B», sont réparties entre deux groupes: la famille Couvrette et la famille Provost; il y a trois membres de chaque famille.

Mᵉ JOYAL: Une autre catégorie?

M. COUVRETTE: Les classes «A», sur le marché, nous avons au-dessus de 1,000 actionnaires.

Mᵉ JOYAL: Est-ce qu'il existe un actionnaire majoritaire?

M. COUVRETTE: Non.

Mᵉ JOYAL: Un actionnaire principal?

M. COUVRETTE: Le plus gros auquel je puisse penser, il peut posséder à peu près 5 p. 100, quelque chose comme cela.

Mᵉ JOYAL: En d'autres mots...

M. COUVRETTE: Il n'y a pas d'actionnaire majoritaire du tout, dans le sens du mot.

Mᵉ JOYAL: En d'autres mots, votre témoignage est à l'effet que la répartition de vos actions,—du moins l'ensemble,—est sur une base très populaire, et dont vous ne répondez à aucune autre corporation ou société?

M. COUVRETTE: Non; nous servons les indépendants et nous sommes indépendants à notre bout.

Me JOYAL: Êtes-vous propriétaire de compagnies ou de sociétés, dont vous êtes le seul propriétaire?

M. COUVRETTE: Je vous ferai remarquer que le mémoire que nous avons présenté répondait au nom de Couvrette et Provost et de ses filiales en réalité, et toutes les filiales de Couvrette et Provost sont totalement sa propriété.

Me JOYAL: Avez-vous des intérêts financiers dans F.D.L.?

M. COUVRETTE: Non; les intérêts financiers que nous avons, c'est quand nous venons à la rescousse de marchands mal pris financièrement.

Me JOYAL: Vous devenez leur prêteur?

M. COUVRETTE: Oui.

Me JOYAL: Avez-vous des intérêts financiers dans la chaîne Métropole?

M. COUVRETTE: Non.

Me JOYAL: Ou dans la chaîne Coronet?

M. COUVRETTE: Non,—ce ne sont pas des compagnies...

Me JOYAL: Je devrais peut-être dire «dans les membres de cette chaîne»?

M. COUVRETTE: Non, je n'en ai pas; je n'en connais pas; la compagnie n'en a pas.

Me JOYAL: Vous accordez à vos affiliés toutes sortes de services, que vous avez expliqués; sauf s'il s'agit d'un service financier,—ça se fait par exception?

M. COUVRETTE: Oui.

Me JOYAL: Maintenant, les ventes dont vous nous avez fait part, qui s'élèvent à 48 p. 100, cette année; quel est le pourcentage de ces ventes à vos affiliés?

M. COUVRETTE: A peu près le tiers; il y a peut-être un affilié dont il n'a pas été question, qui est d'un ordre tellement différent, à ce qu'on appelle les affiliés ordinaires, et qu'on n'est pas porté à le considérer comme affilié, nous avons un total d'environ 300 magasins affiliés, dans les groupes mentionnés par M. Boisvert. Mais, en plus, nous avons un groupe qui s'appelle Champion, qui paye $1 par semaine pour être affilié, et qui retire certains services; mais, ils ne sont pas de vrais affiliés; c'est un moyen de leur aider,—ça nous permet de leur aider.

Me JOYAL: Les deux tiers de vos ventes sont adressées à qui?

M. COUVRETTE: Il y a un tiers qui est fait par le «cash and carry», nos épiceries Presto; l'autre tiers, à certaines filiales; nous avons, à Trois-Rivières et Shawinigan le groupe Régal, et la maison Conrad Lajoie; ça représente à peu près un tiers; et, le reste, à certains marchands non affiliés.

Me JOYAL: Ce sont des compagnies qui sont intégrées dans votre marché?

M. COUVRETTE: Oui.

Me JOYAL: Il y a une autre question qui m'intrigue, et que vous indiquez, disons, au début de vos opérations,—de la majoration de vos affaires en 1963,—un pourcentage de dépenses de promotion, ou de publicité, qui s'élèvent à peu près à 0.49 p. 100 de vos ventes.

M. COUVRETTE: Est-ce que vous prenez cela dans le mémoire?

Me JOYAL: Il me semble que j'ai pris ça dans le mémoire; je vous réfère à la page 3; le pourcentage de vos dépenses pour publicité, en augmentation de 1963 à 1966 de ½ sous du 100, jusqu'à 1.34 du 100. Pourriez-vous expliquer cette augmentation disproportionnée de vos ventes, d'une année à l'autre, et en même temps, il y a eu tellement d'augmentations dans vos frais publicitaires?

M. COUVRETTE: Il y a différents facteurs, et un me vient à l'esprit, qui a une prépondérance; en 1963, nous n'avions pas la même sorte d'affiliés qu'aujourd'hui; nous n'avions pas des groupes aussi bien organisés; nous avions autant de clients, peut-être davantage, mais la façon dont ils étaient groupés n'exigeait pas autant de publicité.

Ensuite, en 1964, nous avons fait des acquisitions—nous en avons fait surtout en 1965 et 1966. Il faudrait remarquer que de 1965 à 1966 il y a une diminution, à ce moment. Alors, dans le travail que suppose l'intégration d'une nouvelle acquisition, il se passe toujours une période un peu plus laborieuse, qu'on finit par surmonter, et à mener à de plus justes proportions, et ce sont les efforts qu'on fait, et rien ne dit qu'en 1966 ça ne déclinera pas.

M[e] JOYAL: Pourriez-vous indiquer, pour la période du 26 mars 1966, jusqu'à aujourd'hui, est-ce que ce serait le pourcentage de vos dépenses qui est demeuré plus stable?

M. COUVRETTE: A peu près le même pourcentage; nous n'avons pas encore de rapport complet.

M. BOISVERT: Ça reste à 1.3, selon le contrôleur.

M[e] JOYAL: Maintenant, pour la question des timbres-primes, vous nous avez dit dans votre mémoire qu'une société s'était formée—la compagnie Régal?

M. COUVRETTE: La compagnie prime Régal.

M[e] JOYAL: Cette société est en opération depuis février 1965?

M. COUVRETTE: Oui.

M[e] JOYAL: Est-ce que les opérations de cette société sont reflétées dans votre rapport annuel?

M. COUVRETTE: Oui; enfin, la première année, dans le rapport de 1966, oui. Mais, là encore, c'est une opération qui n'était pas profitable en 1966.

M[e] JOYAL: Maintenant, vous êtes propriétaire d'une compagnie captive?

M. COUVRETTE: Comme les autres.

M[e] JOYAL: Quels sont vos arrangements avec vos affiliés, pour la distribution des primes, ou des timbres?

M. COUVRETTE: Nous leur vendons des timbres, n'est-ce pas—nous leur vendons les timbres à un prix, et c'est pour cela que la compagnie a été formée,—précédemment, nous avions des timbres à offrir à nos affiliés, seulement, nous faisions affaire avec une compagnie de timbres qui n'était pas la nôtre et ensuite, c'est après certains calculs que nous avons constaté qu'il y aurait avantage à former notre propre compagnie de timbres; ça nous mettrait en mesure de vendre les timbres à meilleur marché, aux marchands, et d'améliorer la qualité des primes offertes en retour, n'est-ce pas, et ce commerce-là, jusqu'ici, nous commençons maintenant à retirer certains résultats.

M[e] JOYAL: Est-ce que vous permettez à vos affilés de revendiquer ces timbres pour de l'alimentation? Est-ce que vous permettez d'échanger ces timbres pour l'alimentation?

M. COUVRETTE: On me dit que oui.

M. BOISVERT: Oui.

M[e] JOYAL: C'est bien votre pratique, parmi vos affaires...

M. BOISVERT: Je crois que les consommateurs préfèrent conserver leurs timbres pour l'échange des primes.

M[e] JOYAL: Une dernière question, je crois qu'elle a été posée par M. Saltsman, au sujet de la disparité des prix entre les produits qui portent une marque nationale et les produits qui sont des produits de maisons, ou de marques locales. Je n'ai pas tout à fait compris la portée de votre pensée; mais, vous avez mentionné, à un certain instant, qu'il y a un certain équilibre qui se

fait sentir, qu'il y aurait une amélioration sensible dans la vente des produits à marque privée, comparativement à la vente des produits à marque nationale. Pourriez-vous expliquer votre thèse de nouveau?

M. COUVRETTE: Il s'agissait d'une opinion purement personnelle, qui n'est pas nécessairement partagée par tous mes collègues.

M. LEFEBVRE: Ça arrive, des fois.

M. COUVRETTE: Je ne sais pas jusqu'où ils sont dissociés, mais je me permettrai de faire remarquer ceci: à la lecture du compte rendu des journaux de vos séances, jusqu'à date, je croyais comprendre qu'il avait été mis en évidence que les marques privées pouvaient se vendre à meilleur marché que les marques dites nationales, pour ce que ça veut dire—des marques reconnues, des grosses compagnies; de sorte que, celui qui lirait cela et qui n'est pas initié, pense qu'on peut arriver à concurrencer, que, étant arrivé à cette présentation en fait, que plus il y en aura, de ces marques, que plus ça pourrait être un moyen avantageux de baisser le coût des produits.

Or, j'ai simplement exprimé l'opinion que, étant donné que ces marques privées sont fabriquées par les mêmes fabricants des marques nationales, dans le moment,—à cause de leur faible volume, comparativement aux marques nationales,—que, dans tous les cas, le volume est faible,—eh! bien, les fabricants consentaient à mettre à la disposition de ceux qui voulaient avoir des marques privées à meilleur prix, des produits, les mêmes produits qu'ils vendaient sous leur propre marque nationale,—mais que je considérais que ceci était une sorte de chose qui pourrait s'appeler du «dumping», à un surplus qui ne coûte rien, qui pourrait rapporter davantage à une partie du commerce. Mais, à partir du moment qu'il n'y aurait plus de marques privées fabriquées par des fabricants de marques nationales,—leur équilibre serait rompu, et qu'ils fourniraient en trop grosses quantités, par le point où doit s'établir cet équilibre, que j'ignore. Mais, par rapport à l'endroit où ils se situent, ils ne fabriqueront pas ces produits à meilleur compte que leurs propres produits de marques nationales; alors, ce serait toute l'économie de leur entreprise qui serait en danger, à ce moment. Je veux dire, dans le terme scientifique du mot. C'est une opinion purement personnelle. Ou bien, ça mènerait à l'intégration verticale, c'est-à-dire que les grosses compagnies auront leur propre fabrique, et c'est un contrôle encore plus complet qui s'étendrait ainsi.

Me JOYAL: Vous nous avez présenté un tableau qui donne, en particulier, la majoration de vos prix, entre le prix coûtant et le prix de vente. Allez-vous nous présenter ce chiffre en donnant le pourcentage, la majoration exacte?

M. BOISVERT: Oui.

Me JOYAL: Maintenant, est-ce que la compagnie a des intérêts financiers dans aucun de vos manufacturiers aux producteurs?

M. COUVRETTE: Non.

Me JOYAL: Est-ce que les deux classes d'actionnaires majoritaires de Couvrette et Provost ont des intérêts personnels dans la classe des producteurs ou des fabricants?

M. COUVRETTE: Les Couvrette n'en ont pas.

M. RENÉ PROVOST: Les Provost non plus.

Mr. JOYAL: Thank you.

M. COUVRETTE: Bienvenue.

Co-Chairman Mr. BASFORD: Senator O'Leary?

Senator O'LEARY (*Antigonish-Guysborough*): Thank you Mr. Chairman. My first question is going to indicate very obviously that I am not incompetent, because I happen to have been in the retail business all my life, so I want a brief explanation. Turning to page 2, at gross sales, I would understand that of every dollar of sales made $3.47 is gross profit; is that correct?

Mr. COUVRETTE: Yes, \$3.47.

Senator O'LEARY (*Antigonish-Guysborough*): Turning to page 3—salary and wage costs, advertising expenditures, it is stated "Transportation costs: using the same tabulation as above these expenses are the following: "Then you list them; for example, salaries, \$1,001,000, or 2.07 per cent, and so on, making a total of \$1,812,000, according to my calculation. Adding to percentages this amounts to 3.75 per cent, if I am correct. In other words, on every dollar of sales did you spend $3\frac{3}{4}$ cents on these particular expense items?

Mr. BOISVERT: We did, sir.

Senator O'LEARY (*Antigonish-Guysborough*): Therefore your net loss was \$136,000 for that period in that operation.

Mr. BOISVERT: Sir, we have just accepted in concluding with legal counsel to deliver to the committee actual gross profits, which these are not. These have been, unfortunately—and I apologize for the misunderstanding—answers to the questions asked or suggested to be covered indicating trends in gross sales, the cost of merchandise sold and the difference between the gross sales and the merchandise sold being that part of the gross profits, which is effected that way; but not all items of expense were requested of us, neither were all items of revenue, so that in order to adjust the figures—these figures would seem to make us twice as efficient as some of the witnesses that have passed here, which we are not. Mind you, we would like to be. So we shall supply for the committee a set of figures that will be rightly comparable to those you have either obtained already or in answer to the questions.

Senator O'LEARY (*Antigonish-Guysborough*): But if I understand your figures at all they make you appear to be inefficient and as losing money, according to this.

Mr. BOISVERT: No; the revenues are only partial, sir. As I said, I have attempted to make too literal a reply to the questions put to me by your committee secretary.

Senator O'LEARY (*Antigonish-Guysborough*): We shall await those figures, thank you. On page 4 you refer to the two systems that are dominant in your distributive field in selling prices at wholesale. Now, do your customers or retailers have a choice, a preference here as to which one of these systems they choose? I realize you have a further explanation about ordering from catalogue, and so on, but do they have a choice?

Mr. BOISVERT: No, sir.

Senator O'LEARY (*Antigonish-Guysborough*): There is a volume figure?

Mr. BOIVERT: Our pricing policy is net, less an allowance if they buy \$800 a week on the cheque attached to the catalogue.

Senator O'LEARY (*Antigonish-Guysborough*): Could you tell me approximately what volume of business is done under the two different systems?

Mr. BOISVERT: We have only one system. I have merely described ours by contrasting it to another type of pricing policy in competition with which we are.

Senator O'LEARY (*Antigonish-Guysborough*): These two are not yours, then?

Mr. BOISVERT: No, only one.

Mr. COUVRETTE: The first line reads, if translated, "Two main systems are being utilized by wholesale grocers"; not necessarily by us.

Senator O'LEARY (*Antigonish-Guysborough*): Yes, I realize now that you state that these "two systems are dominant in our distributive field."

Mr. BOISVERT: We knew other witnesses would come to you with the other formula, and we wanted to explain that there are in fact a number of pricing policies.

Senator O'LEARY (*Antigonish-Guysborough*): On page 7, with respect to your comments about reading the newspaper recommendation, to the consumer, of buying from bulk in preference to the prepackaged units, from your next remark I think you are more or less accepting there a maximum bulk figure. It was not my interpretation, at least from what I read in the newspapers, that we were going to consider buying everything—say, dried cereals—by the 100 pounds, or buying detergents or something like that in such bulk quantities. I do not think that was what was meant. Someone else raised the question and it was pointed out that we were referring to the quantity of packages, the quantity and styles of the package. My interpretation of packaging was, for example, that detergents could be sold, for example, in plastic bags, as they are available, rather than in the fancy expensive packages. But you are referring back to a number of years ago, many years ago, on the bulk basis. I do not recall anyone advocating that particular type.

Mr. BOISVERT: I read some recommendation of that type in the newspaper, and I thought I would comment on it. It is no more than that.

Senator O'LEARY (*Antigonish-Guysborough*): Then, on the same page, going to your "cash and carry outlets", about which Mr. Olson asked some questions already—obviously you do have a credit policy for your customers. This is apparent in your accounts receivable here. Does this vary—15 days, 13 days, depending on the customer and the volume or on his credit rating?

Mr. BOISVERT: I will ask our comptroller to report on this.

M. BRUNET: Dans le bilan qui vous est soumis, c'est un bilan consolidé, ce qui veut dire que les comptes à recevoir sont représentés par une partie des profits des institutions. Nos termes pour les institutions sont net 30 jours, tandis que, à nos clients, nous leur vendons sur une base comptant, disons, pour les détaillants, les marchés indépendants, leurs comptes à recevoir incluent le remboursement fait directement aux magasins, nous tournons dans les 5 jours. Alors, nous tournons les comptes à recevoir dans les 5 jours; 5 jours dans les comptes à recevoir.

Senator O'LEARY (*Antigonish-Guysborough*): Then, in your six cash and carry outlets, taking the type of customer who is availing himself of this service—could he be a credit customer?

Mr. BRUNET: No.

Senator O'LEARY (*Antigonish-Guysborough*): He could not?

Mr. COUVRETTE: Cash and carry.

Senator O'LEARY (*Antigonish-Guysborough*): If he preferred to be a cash and carry customer under the other system—

M. BRUNET: Le programme de «cash and carry» est un programme comptant, alors, dans une certaine...

Senator O'LEARY: I understand that.

M. BRUNET: ...dans une certaine mesure, nous leur vendons sur une base comptant.

M. COUVRETTE: Il faut se rappeler que nous avons dit qu'il n'y avait pas de comptabilité, pratiquement pas de tenue de livre dans ces dépôts de distribution, que la marchandise était prise dans les tablettes mêmes par le marchand qui passait à la caisse, et il ne recevait qu'un ruban de caisse; il n'y a pas plus de facturation que cela de faite. Alors, s'il fallait avoir du crédit, il faudrait nécessairement tenir beaucoup plus de comptabilité, ce qui augmenterait le coût.

Senator O'LEARY(*Antigonish-Guysborough*): Excuse me, I believe you are still missing my point. These customers who are presently purchasing from you in this way, on cash and carry, do they have a credit rating with you whereby

they could purchase on credit, if they wished, not in this manner but through your other regular distributing wholesalers.

M. COUVRETTE: Nous ne vendons pas, nous ne faisons pas de crédit non plus, d'ailleurs, que dans notre commerce aux institutions à qui nous vendons sur des termes. Évidemment, il y a une contradiction à certains paradoxes. Nous sommes sensés vendre uniquement comptant, mais nous sommes forçés par les circonstances d'accepter des chèques postdatés, ce qui fait que, comme résultat, nous avons généralement 4 ou 5 jours de vente, comme vient de vous le dire notre contrôleur, dans les comptes recevables. Mais, en somme, l'entente réelle c'est que cela devrait être des ventes au comptant. Nous ne sommes pas sensés faire du crédit à personne, excepté dans le commerce avec les institutions.

Senator O'LEARY (*Antigonish-Guysborough*): I understand. In other words, you are on a cash basis but there are exceptions. There are reasons—

Mr. COUVRETTE: We do the best we can.

Senator O'LEARY(*Antigonish-Guysborough*): This is probably the reason why you do not offer any cash discount to the people who are buying from the Cash and Carry. Even though I agree with everything that you say about your reduced costs—

Mr. COUVRETTE: You are right. It is discount, as was said before.

Senator O'LEARY (*Antigonish-Guysborough*): I believe you indicated that you were able to obtain a better margin here?

Mr. COUVRETTE: I never did say—

Senator O'LEARY (*Antigonish-Guysborough*): I thought you mentioned a figure of approximately 5 per cent gross margin.

Mr. COUVRETTE: No. Je regrette.

Senator O'LEARY(*Antigonish-Guysborough*): If not, excuse me.

M. COUVRETTE: Je regrette, je crois bien, évidemment je ne sais pas, j'espère que je sais tout ce que j'ai dit cet après-midi, mais je dois signaler ceci: je peux vous référer à une question qui a été à l'effet suivant: est-ce que, si la même sorte de clients qui achètent dans vos épiceries Presto, étaient desservis par votre entrepôt principal, est-ce que cela vous occasionnerait un coût additionnel si vous les desserviez là? Et j'ai répondu oui, environ 5 p. 100. C'est entre les deux systèmes. Il n'y a pas de choix entre les deux, chacun fonctionne selon la catégorie de clients, et de la façon la plus économique possible.

Senator O'LEARY (*Antigonish-Guysborough*): Then I must ask the question, is there any direct saving to you in this Cash and Carry outlet operation?

M. COUVRETTE: Bien, c'est un moyen de servir et le gros marchand, dans l'entrepôt organisé pour servir la grosse commande, et également le petit marchand dans un dépôt qui lui est convenable et adéquat.

Senator O'LEARY (*Antigonish-Guysborough*): That partially answers my question. My final question is regarding the last page, page 11, referring to the Canadian Association of Consumers, on the figures that were compiled. I am not going to press you here, in view of the fact that you said:

> I shall not venture to evaluate the documentation on which this release was based, at so close range.

Do you question the documentation?

Mr. BOISVERT: It was only available to me this morning, sir.

Senator O'LEARY (*Antigonish-Guysborough*): Then, you wind up by saying that

> the C.A.C. observations would appear most potent in assisting those particular consumers with low incomes.

That is a hasty observation, from what you determined this morning?

Mr. BOISVERT: Right.

Senator O'LEARY (*Antigonish-Guysborough*): Then, in your final question, you conclude:

> The point is: Shall we tell them, and, if yes, will they listen?

My question is, if you told them and they listened, what do you think would happen your volume, your sales volume?

Mr. BOISVERT: I do not think it would be very substantially affected, that is, in strict practice. We would not alter overnight the preferences of Mrs. Consumer in the manner that she continues expressing them, in buying calf's liver rather than pork liver which would cost one-third of the price. Some with particular needs or limited budgets might heed the advice, if it reaches them. I submit it to the committee that we would proceed to try and do it through our advertising.

Senator O'LEARY (*Antigonish-Guysborough*): Thank you. That is what I wanted you to say.

Mr. OLSON: Mr. Chairman, I would like to ask the witnesses if, in preparing their cost price and selling price index, they would be using the same items as are in the D.B.S. food basket, as it is commonly called. That is, would they give us their cost price and selling price of these items, for a day or date or period in 1964, 1965 and 1966. Then we could make some comparisons of what has happened to the cost price and selling price, that would be comparable for these three periods. I am sure that the prices change within the year, of course. I wonder whether you can give us averages for the whole year, or whether you should take a week in July and make it comparable for each of the years, giving a July in each year, for those items, so that there is a genuine validity to the comparisons that can be made.

M. COUVRETTE: Voici, nous allons faire l'impossible pour donner le plus de détail possible, tel que demandé. Seulement, nous n'avons pas, nous l'avons maintenant, mais nous n'avons pas nécessairement toute la compilation voulue pour les années '63 et '64, peut-être, par exemple, à cause du fait que notre compagnie était encore en pleine organisation. De plus, bien, nous avons passé par la période de gestation de la mécanisation de notre système de comptabilité l'an dernier, ce qui n'a pas été sans compliquer les choses au début. A tout événement...

Mr. OLSON: You would have the records of what your invoice price was for these items and also your cost price.

M. COUVRETTE: Bien, comme je l'ai dit, nous ferons l'impossible pour vous soumettre les réponses demandées.

Mr. OLSON: That is all, Mr. Chairman.

Co-Chairman Mr. BASFORD: There being no further questions, I would like to thank Mr. Couvrette and Mr. Boisvert and their colleagues for coming here this afternoon to give us this very interesting brief and the very interesting answers to questions asked.

As I explained this morning, we have selected a representative list of wholesalers to come before us, and we do appreciate your being one of the guinea pigs, so to speak, in coming here today.

The committee is adjourned until 9.30 Tuesday morning, November 1, when we will have as witnesses the Heinz Company of Canada Limited.

There is a possibility that we may have a new room on Tuesday, and, as all of you are concerned with that, would you take care to check the room number.

The committee adjourned.

EXHIBIT A

SHOPPING SENSE

IDEAS FOR STRETCHING FOOD DOLLARS

Issued by the President's Committee on Consumer Interests

Fruits and Vegetables...

—Be willing to switch one vegetable for another, one fruit for another—if the price is right and your family likes it.

—Play one form of fruits and vegetables against another. Is it cheaper to serve it fresh, canned, or frozen?

—Buy fresh in season—but not at the first. Prices usually go down as supply increases.

—Look for lower priced fruits and vegetables. For instance, apples that are smaller and not so red. You could save 8 to 12 cents on a 5-pound bag.

—Watch for canned and frozen specials as new supplies come to market.

—Save money by selecting fruits packed in light rather than heavy syrups.

—Whole fruits and vegetables in a can are usually higher priced than slices, chunks or halves. Small or "mixed" pieces cost even less.

—Special frozen vegetable combinations and butter—added, boil-in-the-bag vegetables add to your food bill. If you have the time, prepare them yourself.

—Big poly bags of frozen fruits and vegetables are money-savers. You can pour out only as much as you need, save the rest.

Cereals and Baked Goods...

—Some stores offer specials on day-old bakery products. Watch for these.

—Buy the big package of cereal and save.

—Hot cereals cost less than ready-to-eat varieties.

—Sugared cereals cost more than unsweetened. Sugar them yourself and save.

Dairy Products...

—For cooking, try nonfat dry milk and canned evaporated milk.

—Use nonfat dry milk to make skim milk for family drinking. It costs half the price.

—Buy milk in quantity and save. For example, if a half-gallon of milk costs 55 cents at the grocery store; a quart would be about 30 cents. Home delivered—this same half-gallon of milk might cost 62 cents; a quart, 34 cents.

Meat, Poultry and Eggs...

—Know USDA grades. They help you compare price and quality.

—When buying meat, it's the price per serving not the price per pound that counts. Figure four servings per pound of lean boneless meat, two servings per pound of bone-in meat. A boneless round roast at 80 cents a pound may cost no more per serving than a blade-in chuck roast at 40 cents.

—Buy a big chuck roast and cut it three ways for three meals—a steak, a stew, a roast.

—When chicken is "on special," you can save as much as 25 percent.

—Buy whole chickens and save 2 to 4 cents a pound.

—Compare the various sizes of eggs. If medium eggs are at least 7 cents a dozen cheaper than large eggs in the same grade, buy mediums. You get more for your money.

Do Pennies Count?

Do pennies count? When you're shopping for food, there's no doubt about it. Three to four cents off on a 25-cent can of beans, for example, is a 10 to 15 percent savings. Not bad for just a few pennies. Applying this kind of shopping sense—plus the other shopping tips offered in this booklet—could save you as much as $5 on a $30 weekly bag of groceries. At the end of a month, that's an extra $20 in your pocket.

Try New Recipes, New Meal Ideas

Get out the cookbooks, watch newspapers, magazines, and television for new recipe ideas, unusual casseroles, or recipes using old favorites in new ways. You can cut your food bill 20 percent by using lower-priced items in your menus.

Shop the Specials

—Shop the ads. Shop the specials. Shop the stores.

—Check ads particularly for meat, poultry and fish on special. Plan your meals accordingly. These items can amount to a third of your family's food bill.

Make out a Shopping List

—Plan your menus with an eye on the ads.

—Make a list of the foods you'll need.

—Then stick to the list, but be open minded should you spot an unadvertised bargain.

—Shop alone if you can. You'll be able to concentrate better. And besides, Dad and the kids tend to run up the food bill.

Compare the Brands

—Try the lower priced grades and brands. You may like them as well as more expensive items.

—Some stores carry as many as 6 different brands of canned green beans with prices sometimes varying considerably. While quality and cut may differ, nutritional values vary little.

—By looking for lowest priced brands in one store, you can save—for example—5 to 7 cents on a 6-ounce can of frozen orange juice, a nickel on a can of peas, as much as 20 cents a pound on bacon.

Be Willing To Switch When The Price Is Right...

—beef or pork liver for calves liver

—poultry and fish for red meats

—dry milk for fresh milk

—bean, cheese and egg dishes for meat dishes

—cabbage for lettuce

Buy In Quantity...

—Buy in quantity when there's a sale and if you've checked to see that it's a good buy.

—But be careful! Buy only what you need and can use. It's not a bargain if the food is wasted or spoils before you can use it.

—Buy the large can or package only if it fits your family's needs—and you have a proper place to store it.

—Figure the cost per ounce, per pound, per serving. Cornflakes—for example—range from 2 cents an ounce in the large box to 4 cents an ounce in the individual packs.

Check The Cost Of Convenience...

Chances are the partially prepared items will cost you more than the fresh. But not always. Some convenience foods, like frozen concentrated orange juice, frozen green peas, canned orange juice and fruit cocktail, and some cake mixes, are often cheaper than their fresh counterparts.

—Other convenience foods, like frozen corn on the cob, stuffed baked potatoes, cheese in a spray can and frozen dinners, usually cost you more.

—But—if time is short, you may be willing to pay the cost of convenience. Just remember the choice you are making.

EXHIBIT B

CONSUMERS' ASSOCIATION OF CANADA

NATIONAL OFFICE
100 GLOUCESTER STREET
OTTAWA 4
CANADA

FOOD BUDGET

The art of making a good food budget lies in obtaining the maximum amount of nutrition and variety for the sum of money available. Before you start, make sure that you have allowed elsewhere in your housekeeping budget for such things as cleaning products, toiletries and bathroom tissue.

Budgeting is not easy; it demands thought and advance planning and, at the same time, the ability to take advantage of items offered at especially favourable prices, either because they are in plentiful supply or because the retailer has put them "on special" to attract customers.

Sound budgeting is reflected in better health and the satisfaction of having spent one's money to the greatest advantage.

A large food bill does not always mean a well-fed family, nor do you necessarily have to spend a lot to feed your family well.

Nutritional Value of Foods

Begin by following "Canada's Food Guide", for it has been prepared by expert nutritionists and takes account of our Canadian food habits.

To the basic foods listed in Canada's Food Guide", you may add the foods of your choice to provide you with fat, sugar, condiments, drinks, etc., whose main function is to provide calories. The need for these varies from family to family and person to person, and depends on the tastes and appetite of the individual.

How Much Food to Buy?

At first sight, this table looks rather complicated. However, if you take a little time to study it, you will see that it is really quite simple to prepare a list of quantities from it for your own family.

FOOD FOR ONE WEEK
(Based on the Canadian Dietary Standard)

	Milk (1)	Fruits–Vitamin C group (2)	Other fruit	Potatoes	Other vegetables	Bread	Whole grain cereals	Refined cereals, flour	Meat, fish, poultry liver, dried beans, peas	Eggs	Cheese	Butter, margarine	Other fats	Sugar and sugar products
	qts.	lbs.	lbs.	lbs.	lbs.	oz.	oz.	oz.	lbs.	no.	oz.	oz.	oz.	oz.
Moderately Active Man.........	2	2	2	4	4	64	8	12	$2\frac{1}{2}$	3	4	12	12	18
Moderately Active Woman......	2	2	2	3	4	32	8	6	2	3	3	8	6	18
Child 1–6 Years.................	$4\frac{1}{2}$	1	1	$1\frac{1}{2}$	2	24–32	4	1	$\frac{7}{8}$	3	1	4–6	1–3	18
Child 7–11 Years................	$4\frac{1}{2}$	$1\frac{1}{2}$	$1\frac{1}{2}$	$2\frac{1}{2}$–3	3	40–48	6–8	3	$1\frac{1}{2}$–$1\frac{3}{4}$	3	3	8–10	3	3–4
Girl 12–20 Years................	6	2	2	3	4	56	8	2–4	2	3	4	10	2–4	8
Boy 12–15 Years................	6	2	2	3	4	60	8	4	2	3	4	10	4	8
Boy 16–20 Years................	6	2	2	4	4	84	10	6	$2\frac{1}{2}$	3	4	16	6	18

(1) During pregnancy and nursing increase to almost a quart per day (32 oz.).

(2) One 20 oz. can of orange juice or apple juice is equivalent in Vitamin C to $1\frac{1}{2}$ lbs. of citrus fruit. One 20 oz. can of tomato juice contains as much Vitamin C as is in $\frac{3}{4}$ lb. of citrus fruit.

No Two Food Budgets are Identical

Food budgets vary from one family to another.

1. The number and age of the members of the family are important. A family which includes adolescents requires more food than a family where the children are all pre-school age. The following table taken from the "Individual Minimum Adequate Food Cost" prepared by the Montreal Diet Dispensary in September 1966 shows that there is also a difference in the amount of money which has to be spent on the food budget.

MINIMUM FOOD BUDGETS FOR ONE WEEK

	Family A		Family B		Family C
Moderately Active* Father	6.79	Moderately Active Father	6.79	Moderately Active Father	6.79
Moderately Active Mother	5.69	Moderately Active Mother	5.69	Moderately Active Mother	5.69
Child Aged 3	3.74	Boy Aged 9	4.92	Boy Aged 14	6.51
Child Aged 6	3.99	Girl Aged 13	6.30	Girl Aged 17	6.51
				Boy Aged 20	8.03
Total	20.21		23.70		33.53

* "Moderately active" means the average man or homemaker.

2. The cost of feeding the family also depends on the homemaker's skill in purchasing, stocking, preparing and serving foods.

For example, a can of fruit or vegetables of Canada Standard or Canada Choice Grade may be substituted for one of Canada Fancy Grade. There may be a small sacrifice in appearance, but taste and nutritive value are the same.

A head of lecture of which half of the leaves have to be discarded costs twice as much as the apparent price.

3. The shopping list.

The shopping list should be based on

(a) the plan of the week's menus,

(b) a survey of what is in the refrigerator and the kitchen cupboards,

(d) a knowledge of prices and the advantages of comparative shopping.

(d) a knowledge of prices and the advantages of comparative shopping.

A Thoughtful Shopper Saves Many Dollars

In the following table we compare two shopping lists, using the prices we found at an Ottawa store in mid-October 1966. We shopped for a family of four people—father, mother, a boy of 9 and a girl of 13—and based our purchases on "Canada's Food Guide" and the table of quantities of Food for One Week.

These two shopping lists show quite clearly that there can be a very considerable difference between the cost of providing the standard of nutrition recommended by "Canada's Food Guide" depending on the skill of the shopper. We haven't included some items which are bought in quantity and last for several weeks (e.g., sugar, spices, etc.) or the little luxuries which vary from family to family (e.g., sweets, soft drinks, potato chips, etc.)

Are You a Good Shopper?

1. Do you plan your menus for a week? You should use "Canada's Food Guide".

2. Do you compare the weekly "specials" offered by different stores in the newspapers?

3. In the store, do you keep strictly to your shopping list? Apart from buying necessaries which you know to be at reduced prices, do you let yourself be tempted by promotions for higher priced goods?

4. Do you buy by grade? Always compare brands too.

5. Do you work out the price per ounce or per serving to buy most economically? Do you read the labels which list the ingredients?

A SHOPPING LIST FOR FOUR

Less Expensive Foods					More Expensive Foods			
Food	Quantity	Price	Cost		Food	Quantity	Price	Cost
				MILK				
Powdered skim	3 lb. 6 oz.	1.09/3 lb carton	1.22	Requirement: 14 quarts. Reconstituted powdered skim costs 9 cents per quart. Many families now use both powdered milk and fresh milk.	Homo milk	14 qts	0.28 per qt.	3.92
				FRUIT—VITAMIN C GROUP				
Vitaminized apple juice—(Choice)	96 oz.	0.25/48 oz. can	0.50	Requirement: equivalent of 7½ lb.	Medium grapefruit	2 lb.	0.59/2 lb. lb.	0.59
Tomato juice—(Fancy)	48 oz.	0.35/48 oz. can	0.35	Apple juice and tomato juice contain Vitamin C and can be substituted for citrus fruits. 2 qts. orange juice is the equivalent of 6 lb. oranges.	Pure orange juice	2 qts.	0.49/40 oz. can	0.98
				OTHER FRUIT				
Fresh apples	3 lb.	0.39/3 lb.	0.39	Requirement: equivalent of 7½ lb.	Fresh pears	2 lb.	0.29 per lb.	0.58
Fresh bananas	2 lb.	0.29/2 lb.	0.29		Fresh grapes	2 lb.	0.25 per lb.	0.50
Canned peaches (Choice)	28 oz.	0.39/28 oz. can	0.39		Canned peaches (Fancy)	28 oz.	0.65/28 oz. can	0.65
Dried medium prunes	1 lb.	0.39 per lb.	0.39		Fruit cocktail (Fancy)	28 oz.	0.85/28 oz. jar	0.85
					Dried apricots	12 oz.	0.69/12 oz.	0.69
				POTATOES				
Potatoes	11½ lb.	0.49/10 lb. bag	0.56	Requirement: 11½ lb. potatoes. Potatoes may also be bought in larger bags. 12 oz. instant potatoes is equivalent to 4 lb. fresh potatoes.	Washed potatoes	5 lb.	0.40/5 lb.	0.40
					Frozen french fries	2 lb.	0.31 per lb.	0.62
					Instant potatoes	12 oz.	0.63/12 oz.	0.63
				OTHER VEGETABLES				
Fresh carrots	3 lb	0.25/3 lb.	0.25	Requirement: 15 lb. other vegetables	Fresh carrots	2 lb.	0.29/3 bunches	0.29
Celery	1 lb.	0.19 bunch	0.19		Broccoli	1 lb. 4 oz.	0.49 per bunch	0.49
Turnip	3 lb.	0.07 per lb.	0.21		Cauliflower	1 lb. 8 oz.	0.25 per head	0.25
Squash	3 lb.	0.09 per lb.	0.27		Lettuce	2 lb.	0.29 per lb.	0.58
Cabbage	2 lb.	0.10 per lb.	0.20		Tomatoes	3 lb.	0.29 per lb.	0.87
Creamed corn (Choice)	20 oz.	0.20/20 oz. can	0.20		Corn-Kernel—(Fancy)	24 oz.	0.43/2 × 12 oz. can	0.43
Peas—(Choice)	20 oz.	0.19/20 oz. can	0.19		Peas—(Fancy)	15 oz.	0.24/15 oz. can	0.24
Green beans—(Choice)	20 oz.	0.18/20 oz. can	0.18		Green beans—(Fancy)	15 oz.	0.20/15 oz. can	0.20
				BREAD				
Enriched white bread	8 loaves	0.23/24-oz. loaf	1.84	Requirement of bread: 8 loaves	Enriched white bread	6 loaves	0.23/24 oz. loaf	1.38
					Bread rolls	24	0.33/12 rolls	0.66
					Raisin bread	24 oz.	0.21/12 oz.	0.42

Less Expensive Foods					More Expensive Foods			
Food	Quantity	Price	Cost		Food	Quantity	Price	Cost
				CEREALS				
Instant rolled oats	2 lb. 12 oz.	0.55/2 lb. 12 oz. bag	0.55	Requirement of whole grain cereals: 2 lb. Note cost of individual pack.	Instant rolled oats	1 lb. 4 oz.	0.37/box of 10 pkts.	0.74
Long-grain rice	1 lb. 8 oz.	0.31/2 lb.	0.24	Requirement of refined cereals: $1\frac{1}{4}$ lb.	Breakfast cereal	15 oz.	0.65/15 oz. box	0.65
					Instant rice	1 lb. 8 oz.	0.82/1 lb. 8 oz box	0.82
				BUTTER/MARGARINE				
Margarine	2 lb.	0.51/2 lb.	0.51		Butter	2 lb. 8 oz.	0.67 per lb.	1.68
Butter	8 oz.	0.67 per lb.	0.34					
				MEAT AND ALTERNATES				
Boneless beef chuck rolled	2 lb.	0.69 per lb.	1.38	Requirement of meat: $5\frac{1}{4}$ lb.	Sirloin steak	2 lb.	1.19 per lb.	2.38
Pork shoulder	1 lb. 4 oz.	0.63 per lb.	0.79		Pork chops	1 lb. 4 oz.	1.35 per lb.	1.69
Hamburger	1 lb.	0.59 per lb.	0.59		Minced round steak	1 lb.	0.89 per lb.	0.89
Sausage (store brand)	1 lb.	0.69 per lb.	0.69		Sausage (Brand name)	1 lb.	0.79 per lb.	0.79
Pork liver	12 oz.	0.49 per lb.	0.34	Requirement of liver: $\frac{3}{4}$ lb. Calf liver is not as nutritive as pork liver.	Calf liver	12 oz.	1.49 per lb.	1.12
Frozen cod fillets	1 lb.	0.55 per lb.	0.55	Requirement of fish: 1 lb.	Frozen scallops	1 lb.	0.95 per lb.	0.95
Medium eggs	1 dozen	0.72 per doz.	0.72	Requirement of eggs: 1 dozen Better buy medium when there is more than 5 cents difference between medium and large.	Large eggs	1 dozen	0.82 per doz.	0.82
Processed cheese (skim milk cheese)	1 lb.	0.50 per lb.	0.50	Substitute for meat.	Processed cheese (brand name—whole milk)	1 lb.	0.72 per lb.	0.72
				OTHER FOODS				
Vegetable oil	16 oz.	0.43/16 oz.	0.43	(Providing variety and supplying extra calories)	Olive oil	16 oz.	0.89/16 oz.	0.89
Molasses	$26\frac{2}{3}$ oz.	0.27/$26\frac{2}{3}$ oz.	0.27		Table syrup	32 oz.	0.69/32 oz.	0.69
Marmalade	24 oz.	0.59/24 oz.	0.59		Jam (Brand name)	24 oz.	0.79/24 oz.	0.79
Tea	1 lb.	0.97/1 lb.	0.97	1 lb. tea makes approximately 200 cups	Tea bags (Brand name)		0.85/60 bags	0.85
Instant coffee (store brand)	6 oz.	0.89/6 oz. lar	0.89		Instant coffee (Brand name)	6 oz.	1.19/6 oz.	1.19
Iced milk	3 qts.	0.65/3 qts.	0.65		Ice cream	3 quarts	0.99/3 qts.	0.99
			18.62					34.87

		Cost prices ex receiving docks or ex-car — Prix coûtants ex-quais réceptions ou ex-wagon	Selling prices f.o.b. our warehouse — Prix vendants f.a.b. nos entrepôts	Gross margin — Marge brute
		$		%
Tomato juice—Jus tomate	24/20 on. Bright-Libby	3.65	$ 3.77 less 1%	2.2
Canned peaches—Pêches conserves	24/20 on. Stoney Creek	6.73	7.00 less 1%	2.8
Canned peaches—Pêches conserves	24/20 on. Aylmer	7.07	7.40 less 1%	3.5
Canned peaches—Pêches conserves	24/28 on. Del Monte	8.00	8.35 less 1%	3.2
Fruit drinks—Breuvages fruits	12/48 on. Allen	3.50	3.65 less 1%	3.1
Coffee reg.—Café	12/1 lb. Maxwell	8.76	8.96 less 1%	1.2
Coffee instant off .20c—Café inst.	24/6 on. Maxwell	21.50	22.04 less 1%	1.4
Canned cream corn—Blé d'Inde crème	24/20 on. Ideal	4.07	4.25 less 1%	3.2
Canned kernel corn—Blé d'Inde grains	24/14 on. Niblets	4.14	4.25 less 1%	1.6
Mixed vegetables—Macédoine	24/20 on. Ideal	3.62	3.75 less 1%	2.5
Canned peas No. 4—Pois conserves	24/20 on Ideal	4.07	4.25 less 1%	3.2
Canned soup veg.—Soupe légumes	48/10 on. Campbell	5.95	6.11 less 1%	1.6
Canned soup tom.—Soupe tomate	48/10 on. Campbell	5.30	5.45 less 1%	1.7
Dry rice—Riz	12/2 lbs. Dainty	3.65	3.75 less 1%	1.6
Alim. paste—Pâtes	24/1 lb. Catelli	4.22	4.35 less 1%	2
Sardines—Sardines	100's Brunswick	8.81	9.18 less 1%	3
Canned salmon pink—Saumon	24/1 lb. Clover Leaf	14.80	15.45 less 1%	3.2
Strained foods—Nourr. tamisées	18/4¾ Heinz	2.05	2.09 less 1%	.96
Corn flakes—Flocons maïs	36/12 on. Kellogg	9.50	9.75 less 1%	1.5
Oats quick—Gruau	12/48 on. Quaker	5.35	5.55 less 1%	2.6
Evaporated milk—Lait évaporé	48/16 on. Carnation	7.35	7.55 less 1%	1.6
Tea O.P.—Thé	24/60's Salada	17.52	17.90 less 1%	1.1
Jams straw.—Confiture	12/24 on. Marquette	4.25	4.34 less 1%	1
Vinegar—Vinaigre	12/40 on. Canada	3.10	3.25 less 1%	3.6
Flour—Farine	10/5 lbs. Five Roses	4.95	5.15 less 1%	2.9
Tissue—Papier toilette	48/2's White Swan	10.80	11.36 less 1%	3.9
Bleach—Javel	12/32 Javex	3.98	4.10 less 1%	1.9
Detergent—Détersif	12's Tide	10.26	10.60 less 1%	2.2
Toilet soap .09c off—Savon toilette	18/4's Palmolive	7.24	7.53 less 1%	2.8
Cheese sliced—Fromage	12½ lb. Kraft	3.88	4.03 less 1%	2.7

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 13

TUESDAY, NOVEMBER 1, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

H. J. Heinz Company of Canada Ltd.: Mr. John A. Connell, Executive Vice-President; Mr. R. G. Nelles, Vice-President, Finance; Mr. J. R. Crerar, Vice-President, Manufacturing; Mr. T. D. Smyth, Vice-President, Services.

Gerber Products of Canada Ltd.: Mr. C. G. Smith, Vice-President and General Manager; Mr. A. S. Peacey, Secretary-Treasurer; Mr. R. T. Holman, General Sales Manager; Mr. J. J. Merrett, Manufacturing Manager; Mr. A. Theobalds, General Merchandising Manager.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25077—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, Joint Chairman

the Honourable Senators

Carter,
Croll,
Deschatelets,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Duquet,
Gray,
Irvine,
Leblanc (*Laurier*),
Lefebvre,
Mandziuk,
McCutcheon,
McLelland,
Nasserden,
Olson,
Otto,
Ryan,
Saltsman,
Scott (*Danforth*),
Smith,
Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

25077—1½

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

> "The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:
>
> That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and
>
> That a message be sent to the House of Commons to acquaint that House accordingly.
>
> After debate, and—
>
> The question being put on the motion, it was—
>
> Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF THE PROCEEDINGS

TUESDAY, November 1, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Honourable Senators Croll (*Joint Chairman*), Inman, McGrand and O'Leary (*Antigonish-Guysborough*).—4.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), McCutcheon, Olson, Saltsman and Smith.—6.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant; Mr. John J. Urie, Q.C., Counsel.

The following were heard:

H. J. Heinz Company of Canada Limited:
Mr. John A. Connell, Executive Vice-President.
Mr. R. G. Nelles, Vice-President, Finance.
Mr. J. R. Crerar, Vice-President, Manufacturing.
Mr. T. D. Smyth, Vice-President, Services.

At 12.45 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Deschatelets, Inman, McGrand and O'Leary (*Antigonish-Guysborough*)—6.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Code, Crossman, McCutcheon, McLelland, Saltsman and Smith.—8.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant; Mr. John J. Urie, Q.C., Counsel.

The following were heard:

Gerber Products of Canada Limited:
Mr. C. G. Smith, Vice-President & General Manager.
Mr. A. S. Peacey, Secretary-Treasurer.
Mr. R. T. Holman, General Sales Manager.
Mr. J. J. Merrett, Manufacturing Manager.
Mr. A. Theobalds, General Merchandising Manager.

At 5.15 p.m. the Committee adjourned until Thursday next, November 3, at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, November 1, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: Order. I see a quorum, gentlemen. Today we have with us the H. J. Heinz Co. of Canada Ltd.

Mr. John A. Connell, Executive Vice-President, seated on my left, will be the spokesman and will introduce those who are with him.

Mr. John A. Connell, Executive Vice-President, H. J. Heinz Co. of Canada Ltd.: Gentlemen, I would like to start off by introducing my colleagues who are with me today: Mr. J. R. Crerar, Vice-President, Manufacturing; Mr. P. E. Gervais, Vice-President, Marketing; Mr. R. G. Nelles, Vice-President, Finance, and Mr. T. D. Smyth, Vice-President, Services.

Before getting into the brief proper, I would like to cover with you the notice from the committee, asking us to set out in detail what you wanted us to cover. I read from the brief as follows:

On October 11, we received a letter from your Special Assistant, Dr. R. W. James, inviting us to attend this hearing and indicating your particular interest as follows:

> would be particularly interested in what price and cost trends have been in your Company, especially the recent changes in the field of infant foods. Figures provided by the Dominion Bureau of Statistics indicate there have been appreciable increases in the retail price of infant foods recently and as you no doubt know, this is exciting some comment from mothers and housewives.

On October 24, which was last Monday, we received another letter from Dr. James enclosing "a few notes for your assistance in preparing analyses for the committee". These notes are set out in Appendix 1 and call for a considerably more detailed presentation than we first assumed would be required.

This has needed a great deal of care and time in preparation and we would like to offer the committee our sincere apologies for our inability to complete and circulate this document in advance of today's hearing.

In the event, we were able to send up a special messenger to Ottawa yesterday and were able to give the required numbers of copies in English and French so that, undoubtedly, some of you have had an opportunity to read this brief in advance.

This presentation will first cover the subject of baby food in considerable detail, since this appears to be your prime interest. The balance of the report will deal with corporate cost and price trends and other items of more general interest as set out in Appendix 1.

(*Editor's Note: There is no Appendix 2 to this brief.*)

On the subject of baby foods in general, and before getting into detail on baby food prices, I would like to advise you that the total baby food market is about 18 million dozen, of which the Heinz Company has about an 80 per cent share. There are approximately 527,000 babies of a baby food age in Canada, and each will eat in one year about 400 packages. This, therefore, will cost the mother, during the baby food period, approximately $70 per baby. This means, because each child eats about 400 packages, that a one-cent increase per package of baby food will cost the mother, during the baby food eating life of her child, $4 per annum.

That is, a one-cent increase in the retail price will cost the mother $4. I am not implying that $4 is not important, but I am trying to put the thing in its proper perspective, before we start off on this subject.

The Heinz Company supplies the grocery trade with approximately 15 million dozen baby food each year. There are 160 different varieties. I would like to cover those varieties in more detail. Let us straightaway cut that figure in half, by reminding you that there are two baby food markets, the strained market and the junior food market. One is for very young babies and the other is for slightly older babies before they get round to eating part of the ordinary family meal.

So half of this 160 is in strained foods. This is in turn split three ways. The bulk of 80 odd varieties is made up of standard strained foods, but there are, in addition, 10 varieties of high protein meats and 10 varieties of meat dinners. So that this strained food total of 81 is split as follows: 61 regular, 10 varieties of solid meat and 10 varieties of meat dinners.

Likewise, junior foods are split three ways: 47 standard foods, six solid meats, eight meat dinners, seven juices, and 12 cereals.

This total number of 160 is logical and fits the particular market needs right through the range.

Until May 1965 all of these baby foods were packed in tins. Since that date, however, the Provinces of Ontario and Quebec, which account for 70 per cent of our turnover, have been supplied with baby foods packed in glass jars only. The remaining provinces accounting for 30 per cent of our turnover still have baby foods in tins only.

I would like now to cover the comparative costs of glass and tin because I know that is a subject in which you are very interested, and we might as well get that in perspective before we go much further. At this point in our brief we show five separate cost headings with an additional cost per jar—over tins, that is.

Cost Heading	Additional Cost Per Jar $
Packaging	.0154
Direct Labour	.0028
Factory Overhead	.0012
Freight	.0009
Transport & Warehousing	.0011
Total Extra Cost per Jar	.0214

These figures show an automatic addition to cost of approximately 2 cents per package in changing from tins to glass jars.

The packaging item includes the glass jar, cap, label, glue and the printed corrugated cardboard case with special dividers to prevent breakage. Direct labour covers factory labour directly concerned with filling, capping, labelling, inspecting and packing the jars in their shipping cases.

Factory overhead covers all other items of factory cost other than direct labour. Freight, Transport and Warehousing are self-explanatory and the extra cost arises from the extra weight of glass packed baby foods.

So much for the extra cost. As we have seen, it costs two cents extra to pack in glass jars rather than in tin.

You might then well ask why we decided to change over from tin to glass. I would like to deal with that decision.

In May 1965, the Heinz Company reluctantly decided to change from tins to glass jars in the provinces of Ontario and Quebec. For two years prior to this date, our competitor had been selling baby foods in jars only in these provinces. In actual fact it was nearer to three years than to two.

During this time, the Heinz Company had hoped the price differential would prevent the market swinging to glass, for which consumers seemed to have a natural preference, assuming all other things were equal. This was not a vague hope on our part. We had in fact researched the subject and we had shown that where a mother was exposed to baby foods in tins only she was not willing to pay two cents extra, but where she was exposed to glass jars she was happy to do so and would not change back to tin. Despite this research, the Heinz Company felt it should delay the change-over in any way it could. I would at this stage like to show you a typical ad which we ran during that time dealing with this subject. You must remember that we were at that time in a competitive battle with those who were already selling in jars. This ad gives six important facts concerning cans and jars. The first one says that "Heinz steri-seal tins protect vitamins from light rays." The second says "Heinz steri-seal tins are tamper proof. Tampering fingers can't break the hermetic seal of a Heinz steri-seal tin, even by accident." Thirdly, "Heinz steri-seal tins are unbreakable." Fourth, "Heinz Baby Foods in steri-seal tins cost less. You naturally want the best for your baby and Heinz Baby Foods in steri-seal tins not only bring you the best in baby foods, but they cost less." The fifth—"Heinz steri-seal tins are safe—easy to open." And the sixth—"Heinz steri-seal tins are safe for storing leftovers. After using part of a tin of Heinz Baby Food, just cover and keep the remainder in the refrigerator right in the tin. This ensures maximum freshness, because the Heinz steri-seal tins as well as the foods are completely sterilized during processing."

We did make during those years a serious endeavour to keep the market on cans. I have one little device here used in the stores which says "save on Heinz Baby Foods, Compare Quality, Price." Thus we accented what we considered to be the important attributes of canned baby foods.

Early in 1965, it became obvious that the market was swinging to glass and in May we reluctantly decided that further delay would seriously damage our ability to meet the new and developing trend, particularly among younger mothers.

During this period I would like to tell you that the total market in tins went from 98 per cent in 1961 to 97 per cent in 1962 to 82 per cent in 1963 to 80 per cent in 1964 and to 78 per cent in 1965. We decided at that stage to get in on the act, and the total market went over to glass except in areas outside of Ontario and Quebec. It is also important that I should tell you that we conducted a properly-conducted research program into this and we ascertained certain highlights. In this survey we found that the container was important. Only 4 per cent of those questioned mentioned the tin as an important reason for buying tin. The main reason for tin buyers liking the tin container is that it is sanitary not opened by force. They found that there was consumer concern about the tin not keeping food as well or as long because of the difficulty of closing the tin when it had been opened, and feeling that once it was opened

some deterioration takes place. The survey shows that the glass container is definitely preferred by the consumer when they were concerned with the storing feature when opened. It was also found that mothers thought that the glass jar kept the food better. It does not matter whether it does or not. They think it does. The only major disadvantage of the glass jar is that there is a breakage problem, obviously.

It is not our intention to move into glass in the other provinces unless we are forced to do this by trade or competitive action, or by a clear desire by mothers for this type of package.

I would like to read at this stage a section of the report on the American situation so far as this change-over was concerned:

> "The blank Company, at the time a relatively small factor in the Baby Food market, launched baby foods in glass. The two major companies in this particular market at the time decided to fight glass with tin. It was reasoned by these two companies that the price differential should make the choice for tin a logical and safe one.
>
> "However, in spite of a differential that at times was as high as 3 cents per unit, the mothers demonstrated their preference by purchasing glass in ever increasing quantities.
>
> "It became evident, as the glass package marched slowly westward, it was a losing proposition to continue to oppose such a strong consumer trend."

And in fact both major companies in the American market changed over to glass.

It is also relevant to note that all baby foods in the United States are now packed in glass and in both the United Kingdom and Australia a substantial change-over to glass has already taken place and the best marketing brains are busily engaged with this difficult problem. It is also relevant to note that many other commodities—not baby foods—presently packed in jars could be packed more cheaply in tins. The consumer, however, will not have her jam or her ketchup or pickles in tins and any manufacturer who thinks otherwise will rapidly be disillusioned.

So much then for our decision to change to glass in Ontario and Quebec.

Let me go on to tell you about the effect of that decision on the price which the Heinz Company charged to the grocery trade.

Immediately prior to the change-over to glass our net price to the trade for one dozen tins was $1.107. We introduced glass at a net price of $1.233 which was an increase of 12.6 cents per dozen or one cent per package.

This price differential did not cover the natural cost differential already referred to and our profit declined accordingly. Our introductory price was set at the competitive level and we did not feel we could pass on to the trade the full cost increase and remain competitive.

In this and other comparisons, net price to the trade is made up of Heinz list price less allowances for cash payment, volume incentive and co-operative advertising. In practice all goods are invoiced gross with cash discount deducted at time of payment. Co-operative advertising and volume incentives are paid by cheque.

This last paragraph is the answer to one of the points you raised in Appendix 1. Our price of baby foods in jars was increased to its present level in April 1966, following uncontrollable cost increases under nearly every heading.

A comparison of our price and cost increases between the introductory date of May 1965 and the price increase date of April 1966 is shown below.

Price Increase per Jar—April 1966	$ .006
Cost Increase per Jar May '65/Apr. '66	
(a) Ingredient	.0002
(b) Packaging	.0026
(c) Direct Labour	.0017
(d) Factory Overhead	.0009
(e) Warehousing	.0012
(f) All Others	.0010
Total	.0076

Here again the net effect has been that we have recovered in our price increase only part of the cost increase, the balance coming out of profit.

As already stated, baby food in cans today accounts for only 30% of our turnover and because they have been in continuous supply over the period, we would like to compare the price and cost increases over the period 1960 right up to date.

Price Increase per can 1966 vs. 1960	$ .009
Cost Increase per can 1966 vs. 1960	
(a) Ingredient	.0027
(b) Package	(.0016)
(c) Direct Labour	.0003
(d) Overhead	.0027
(e) Warehousing	.0012
(f) Freight	.0033
(g) Selling	.0025
(h) Marketing	Nil
(i) Others	.0024
Total	.0135

Here again price increases over the period only partially recovers cost increases, the balance coming out of profit.

The changeover to glass packed baby foods in Ontario and Quebec Provinces increased the net price to the trade by one cent per package. It also called for an increased Heinz fixed asset and inventory investment at a time when rising costs have not been recovered in price increases, thus substantially reducing our return on investment.

At today's net Trade prices, the differential between cans and glass is still only one cent per package.

We believe we have today the most modern, highly efficient Baby Food plant in Canada, producing top quality products at the lowest possible price to the consumer. It will be our endeavour to keep it that way.

That is all we have written into the brief on the subject of baby foods.

Now I would like to cover various other subjects referred to in Appendix 1, and refer more generally to corporate matters.

I would like, first of all, to cover the Corporate status of the Heinz Company in Canada. H. J. Heinz Company of Canada Ltd. is a wholly owned subsidiary of the H. J. Heinz Company of Pittsburgh, Pennsylvania, U.S.A. It has no subsidiaries either in Canada or elsewhere and only normal trading relationships with any other commercial organization.

In accordance with Heinz international policy, the Canadian company is entirely autonomous—and I really mean that—and is run by a management

board who, with one exception, are Canadians. The exception is myself, John A. Connell, a Scot, who joined our Board of Directors only about 8 weeks ago, after serving nearly 30 years with the Heinz Company in the United Kingdom.

Heinz in Canada provides good steady employment for approximately 2,000 Canadians all over the country. We are rightfully proud of our contribution to the prosperity of the country and particularly of the town of Leamington and the thriving farming community around. So much, then, for the corporate status.

Now let me talk for a minute on the pricing policy, which is so important to your committee.

Our livelihood depends on our ability to give the consumer the very best value for money. We will not compromise on Heinz standards of quality and hygiene, and we do reserve the right to take action on prices which may be necessitated by long term—note, by long term—rising costs over which we have no control. This is a course we are extremely reluctant to follow, and the competitive nature of our markets is such that if we were to move prices without very good reasons common to all other processors, we would be leaving the door wide open for our competitors to take over our markets.

We do not employ fixed or percentage mark-ups on our products, preferring to concentrate on providing the best possible product at the lowest price, consistent with maintaining our competitive position and earning a fair return on our investment.

Sales turnover, competitive strength and return on investment are all related to consumer demand at various price levels and it is our constant endeavour to optimise our long run position by selecting the best possible consumer price in the short run.

If I might elaborate a little on that. Obviously, a lower price will give rise to a lower margin, but generally will generate a higher turnover. The higher turnover, in turn, will give us a stronger competitive position. So far as we are concerned, we endeavour to set the lowest price to yield the sort of return with which we can live. It is, to us, more important to protect our long term competitive position than squeeze out some extra little profit in the short run.

One of the questions you set out in Appendix 1 is covered at the top of page 7.

We have no problem in determining whether or not our sales prices are competitive, since competitive price lists are readily available to check the wholesale values and frequent reports from our sales personnel are able to satisfy us that we are also competitive on the shelf, taking into account all the factors involved.

Another subject in which your committee is very interested is sales promotion, and I would like briefly to cover the policy of the Heinz Company in this regard.

Our policy recognizes that such promotional schemes as consumer competitions, premiums, return label deals, cents off deals, etc., are legitimate activities which are part of modern grocery trade marketing in all the free countries of the world.

We believe this is a subject on which generalization becomes meaningless. For example, an inexpensive return label or coupon deal to help launch and sample a new and attractive package to the consumer is serving a useful and desirable purpose. On the other hand, a coupon "war" between two well established brands serves no real purpose at all and gives the consumer the erroneous impression that huge profits must be available to make such price reductions possible.

Likewise, some extremely good quality premium items have been made available to consumers at prices well below the level they would normally have to pay, and generally, the requirement to include a number of labels with the premium money is far from onerous. On the other hand, again, some cheap useless article masquerading as a premium could justifiably cause consumer irritation.

The Heinz Company's policy on this general subject is simply to use intelligently the legitimate, recognized tools at its disposal to best carry out its marketing requirements. In recent years, we have used in some small measure all of the sales promotional aids referred to.

We no longer use "cents off" deals, it so happens, on our products since unless these are very carefully controlled, they can mislead the consumer and here again cause justifiable irritation. This device was last used by the Heinz Company over a year ago on a minor variety.

I am not saying this could not be used quite intelligently by other people. It just so happens that it is our policy not to use it.

Likewise on private labels, which subject has occupied your attention, and which is a subject in which you are very interested. The Heinz Company in Canada packs no private labels today and has never done so in the past. Our policy in this regard is entirely flexible and we shall continue to keep an open mind on the subject. In general terms, we do not believe it would ever be economically possible for us to involve ourselves in new investment to meet private label requirements for our type of products—and I underline the words "for our type of products". On the other hand, it might conceivably be possible for a processor with spare capacity available to manufacture a private label product and sell this to the trade on a marginal price basis.

This might enable such item to be sold by the trade at a price sufficiently low to make it an attractive private label item. Certainly we would never associate ourselves with a private label item of other than top quality.

In considering the relative merits and demerits of private label and branded products, it seems to be important, quite apart from the deeper issues involved, that price comparisons are qualified by statements on product quality, producers net selling prices and retailers mark-up on these net prices over a reasonable period of a year. A simple comparison of retail prices at any one time is meaningless.

The next subject in which we are interested concerns the standardization of container size. We agree that there is, today, a multiplicity of sizes of containers of certain food commodities on the retail market. The same applies in other markets to a mass of colours, shapes, sizes, patterns, finishes, etc., of nearly every household commodity, from motor cars to freezers.

The purist would interpret this as confusing, inefficient and wasteful, but a free society will insist on a reasonable choice being available.

The introduction of new sizes, in our experience, is taken on our own initiative to satisfy an identified market need. We do not believe that a size which is not selling will last on the shelves of the retailer today with his sophisticated turnover control, and certainly, we have no wish to complicate our manufacturing operation by introducing short production runs on new sizes which are not going to have a demand in the market place.

So much for the general subjects. There now follows a series of items which are covered by appendices, the first of which is a list of fruit and vegetable price trends for which you specifically asked. If you turn to Appendix 3 you will see that this covers the cost per ton delivered to us of some fruit and vegetable commodities over the years from 1960 to 1965. I think the figures are fairly well self explanatory.

At the top we can see that apples moved from $104.00 per ton delivered in 1960, through various price fluctuations—because this is strictly a seasonal thing, the price being regulated by supply and demand—to the estimate for the current year of $96.00.

Peaches, on the other hand, seem to have encountered a more consistent upward trend, moving from $106.00 in 1960 to $124.00 over the last two years.

The price of pears fluctuated quite a lot, the record price of $180.00 being achieved in 1963. This year we estimate the price will be $144.00.

Then, we see under the heading "Vegetables," that the price of tomatoes, which is our chief crop, moved from $39.21 per ton delivered in 1960 upward. The general trend upward is evident to an estimated price in 1966 of $47.62.

The price of cucumbers moved up from $72.00 in 1960 to $80.00 in the current year. Pea beans have increased from $146 in 1960 to $202 in 1966; carrots from $34.00 to $38.00 in the same period. The price of potatoes has moved from $58 in 1960 to $42, to $46, to $46, to $74, to $92, to $66 in the current year.

This gives a rough idea of the sort of price trends with which we are having to cope in the food business today.

Appendix 4 sets out the actual cost to Heinz of some of the major packaging items during the years 1960 to 1965 inclusive. We have also included again our estimate for the current year based on our experience so far. All of the figures in this case have been related to gross sales, at your request. I will mention that at breakfast this morning I was told that our glass price is up four percent as of December 1. That is the second price increase in the last year.

The items mentioned in this appendix have been picked out to indicate to you the sort of packaging materials we are dealing with.

The price of baby food tins and lids per thousand has moved upward from $19.28 in 1960 to $20.18 in 1966. The price of pickle caps, 12-ounce size per thousand, has moved from $12.08 in 1961 to $12.52 in 1966. The price of baby food cases per thousand has moved from $40.61 in 1960 to $41.93 in 1966. The price increase in respect of baby food labels has been $1.62 in 1960 to $1.74 in 1966. The price of ketchup glass, 11-ounce size, per dozen, has moved from $0.36 in 1960 to $0.41 in 1966, and then to whatever it is going to be after December 1. The price of a thousand 10-ounce tins has increased from $20.61 in 1960 to $21.30 in 1966, and the price of 20-ounce litho tins has increased from $38.78 in 1961 to $40.21 in 1966.

Expressed as a percentage of total gross sales, packaging was 24.4 in 1960 and it has gone up through 24.8, 23.6, 22.8, 23.9, to 25.0.

Appendix 5 shows the year by year comparisons since 1949 of average dollars per hour earned by our male hourly paid labour. These figures show an average rate of $0.91 in 1949 rising to $2.42 in 1966. In addition to these hourly wage rates we are today paying a total of 54 cents for miscellaneous fringe benefits as compared to only 22 cents in 1955.

Appendix 6 analyzes the corporate profit. Incidentally, we do not publish our accounts. That is not required by Canadian law, and they are not published at all, although obviously we file our returns with the income tax authorities.

In this appendix we attempt to give you the information required by item 1 of Appendix 1, and these groupings are, I assume, the most useful to you. Our profit in the last year has been substantially lower than in any other year shown, and we can see little likelihood of the profit in the present year being any better.

This appendix shows, in fact, that our profit today is 2 per cent of our gross sales. At no time since 1960 has it ever exceeded 4.9 per cent, which was the peak reached in 1963.

You will see that our total sales dollar is broken down, gross sales being 100 per cent. Miscellaneous allowances of one kind and another account for 6.4 per cent in 1965 which gives us a net sales dollar of 93.6 per cent. Ingredient and packaging materials take 48.2 per cent; wages and salaries take 18.7 per cent—I am talking about this year, although the figures do not vary substantially throughout the piece. All other items and costs total 22.3 per cent, and these include freight, factory operations including wages, warehousing operations including wages, selling operations including wages, marketing operations including wages, and all others. Income tax takes 2.4 per cent, leaving a profit to the business of 2 per cent. In passing I should say that our dividends are usually about 50 per cent, the balance being retained in the company.

The next appendix, Appendix 7, deals with a subject in which I know you are very interested. It contains analyses of marketing costs. Indeed, it takes in an item which is not shown separately in Appendix 6, and breaks it down in detail. In other words, it shows the detail of the total marketing cost in the years 1960 to 1965 inclusive.

Advertising has been consistently around 3 per cent. Merchandizing and promotion, particularly in the last three years, has been around 2.5 per cent. Total marketing in 1965 is 5.5 per cent as compared with 6 per cent in 1960.

So far as the items included under "Advertising" and "Merchandizing and Promotion" are concerned, I do not think too much comment is called for. "Advertising" is self explanatory, the various media being shown there. Direct mail is a service which we aim at new mothers to familiarize them with the baby food service that we have available for them. "Store Material" is self evident. "Samples" includes all of the samples used in the selling operation. "Redemptions" consist of the redemption of coupons and so forth, and then there are the miscellaneous items. I think that exhibit is fairly straightforward.

Another item you have specially asked for is the breakout of our tomato juice costs. If you will identify Appendix 8, you will see this breaks out the sales dollar right down to income tax and profit, that is, all costs associated with tomato juice production. This perhaps really does not give you the answer you are looking for, and we have attempted to do this in our further analysis on page 10 of our presentation. Here we are taking a simpler approach. We can see that one ton of fresh tomatoes costs $42.35 and makes approximately 1,400 cans of 20-ounce tomato juice. The analysis on page 10 is as follows:

			Per 20 oz. can
1. Fresh tomato cost to Heinz			$.030
2. Heinz costs:	Package	$.052	
	Labour	.018	
	Others	.035	
	Total		.105
3. Heinz profit			.001
4. Heinz net price to grocery trade			$ .136

Finally, ladies and gentlemen, the last item we will cover in this particular brief is the one you have asked for, which breaks down under principal cost headings ten typical Heinz varieties. That is identified as Appendix 9. We have set out at the top items A, B, C, D, E, F, G, H, I and J. Under "A", "Sales Allowances," is shown cash discount of 2.0; co-op 1.3; deals, allowances and volume incentive 1.1. Under "Manufacturing," ingredients 14.7; packaging 32.3; direct labour 3.9; factory overhead 8.3 and warehousing 3.2. Then freight 5.0; selling expense 8.9; marketing 6.2; administration 7.0; income tax 3.2; net profit 2.9.

The only item needing special comment is overhead. The allocation of variable overhead is on an actual basis and is accurate. In a multi-product operation such as ours, the apportionment of common fixed overhead is difficult, but the method we use is as nearly realistic as is practical.

The freight item is related to the weight of product and is an actual cost.

Selling is apportioned to products on an estimated basis with baby foods taking a large share of the total. This arises from the disproportionate amount of sales time taken up in filling up store shelves with baby foods.

Marketing is an actual expense in each case, and administration which includes a wide range of "other" items including research and development is prorated to products on the basis of sales volume.

That covers our brief *in toto*. I shall be happy to enlarge on any aspect of this, if you so desire.

Co-Chairman Senator CROLL: While the members are doing a little thinking, I will ask Mr. Urie to clear up some of the corporate matters.

Mr. URIE: On corporate matters, Mr. Chairman, I would like to investigate a little. Your Appendix 6, I imagine, will have to be related to Appendix 9. Pardon me if I seem to ask some questions which will be answered in your brief, but as you know, I just received it first thing this morning. I would like you first to explain what you mean by cash discount.

Mr. CONNELL: Certainly. Cash discount is, you might say, a trade allowance. When we invoice one of our customers we invoice him with goods at gross and when he pays that invoice he is allowed to deduct a cash discount of 2 per cent.

Mr. SCOTT (*Danforth*): Two per cent when?

Mr. CONNELL: Ten days.

Mr. URIE: That has nothing to do with payments you might as a processor make to the retailer for the purpose of getting your goods—

Mr. CONNELL: Not at all. This is our standard trade practice. They are allowed a cash discount when they pay their cash.

Mr. URIE: What is the volume incentive?

Mr. CONNELL: The volume incentive is an allowance which we make to the trade, which is geared to our total volume over a year; that is additional discount.

Mr. URIE: With volume incentive and cash discounts, how are the amounts negotiated? Are they negotiated on the initiative of the Heinz company or on the initiative of the retailer, and do they vary from retailer to retailer?

Mr. CONNELL: No, they are standard. First a flat cash discount of 2 per cent. So far as volume incentive is concerned this is something freely available to everyone at the same time, in accordance with Canadian law.

Mr. URIE: So all your retailers—and I presume you deal directly with retailers?

Mr. CONNELL: Generally we don't, we deal with the bigger customers only. In other words, it is not economical to distribute right down to the individual stores. This is done by the wholesaler.

Mr. URIE: What percentage of your total volume is through wholesalers, and what percentage direct to retailers?

Mr. R. G. Neiles, Vice-President, Finance, H. J. Heinz Company of Canada Limited: I would say about 50 per cent of our volume goes directly to large customers and the other 50 per cent is distributed through wholesale outlets.

Mr. URIE: Do you have a list of your wholesale outlets with you?

Mr. CONNELL: No, we have not a list.

Mr. URIE: Of your major customers?

Mr. CONNELL: We don't have a list of our customers with us. We can supply a list if it is required.

Mr. URIE: Do you deal through food wholesalers?

Mr. NELLES: No, not food wholesalers.

Mr. URIE: What about co-operative advertising. How does this operate?

Mr. CONNELL: Again, this is something which is freely available to everyone in accordance with the Canadian law. We have certain ground rules which are set out in advance and well known by the grocery trade.

Mr. URIE: What are those, please?

Mr. CONNELL: Do we have a list with us? No, I do not think so. I do not think it is too relevant.

Co-Chairman Senator CROLL: Witness, that does not answer the question.

Mr. CONNELL: We can let you have them if you want them.

Mr. URIE: There is quite a lot of information from the retailers we would like to correlate, and with respect, I think it is quite relevant.

Mr. CONNELL: All right.

Mr. URIE: Now I would like to know in dollars what you pay and to whom in the way of co-operative advertising, as well as in percentages.

Mr. CONNELL: Fine.

Mr. URIE: Now, I should like some information about deal allowances.

Mr. NELLES: Deal allowances in the trade generally are expressed in terms either of a flat allowance off of the list price, say 50 cents a case off of a purchase in relation to the price. It can also be expressed in terms of free merchandise, such as one free case in the purchase of ten cases.

Mr. URIE: Who negotiated this? Is it on the intitiative of the Heinz Company or on the initiative of the retailer?

Mr. CONNELL: On the initiative of the Heinz Company.

Mr. URIE: In other words, the retailers do not come to you or the wholesalers do not come to you and say, "We will promote certain lines of your goods if you will provide for us certain deals"?

Mr. CONNELL: No, sir, they do not. We initiate this, and this is a fund we create at the beginning of the year.

Mr. URIE: I will come back to that one in a minute. I have dealt with four items in the analysis of your costs. Now I come down to two further ones, lower in the chart, Appendix 6—selling operations and marketing operations. What are those?

Mr. CONNELL: If you look at Appendix 7, you will find that the marketing figure in Appendix 7, covers completely the items in Appendix 6. It covers advertising, merchandizing and promotion, under the various headings to be found in Appendix 7.

Mr. URIE: You mentioned a minute ago that one of the costs you had in respect of baby foods is the setting up of displays in retail stores. Is that an item of cost of whoever sets up the display?

Mr. CONNELL: This is included under the selling heading. If I could help you, I would relate that selling operation in Appendix 6 to the selling item in Appendix 9. I think that helps to illustrate the point you have just made, the final one being a baby food item, all the others taking up less sales costs being non-baby food items.

Mr. URIE: Do your salesmen in fact set up displays in stores?

Mr. CONNELL: Yes, they do, except in those areas where, because of union arrangements, this is not possible.

Mr. URIE: Is this done because retailers demand it, or because you want to do it?

Mr. CONNELL: This is done because we want to do it.

Mr. URIE: What does the cost of this add to the ultimate cost to the customer?

Mr. CONNELL: It would be extremely small, it would not be measurable. That is to say, it would not be measurable in cents, it would be a fraction of a cent.

Mr. URIE: But there is an element of cost involved?

Mr. CONNELL: There is, certainly.

Mr. URIE: Most of the displays, where you do not have salesmen to set them up, presumably are set up by the retailer himself?

Mr. CONNELL: He has that cost himself. It is a cost item carried by the Heinz Company or by the trade.

Mr. URIE: Therefore there is an extra cost. What does it cost, including the cost of the aisle display or the end display? I am given to understand that if you have an aisle display in a supermarket chain store you have to pay the supermarket chain for the purpose of putting that display in there. Where is the element of cost?

Mr. CONNELL: That element of cost would be here in co-operative advertising or deal allowances. It would probably be in deal allowances.

Mr. URIE: I do not understand how you determine where these things go.

Mr. CONNELL: It is difficult, but generally speaking, any allowances we pay to the trade we have shown perhaps incorrectly—as a deduction from the gross sales.

Mr. URIE: These are so intertwined and I would like to know. In 1965, for example, your total cost for cash discounts, volume incentive, co-operative advertising and deal allowances, amounts to 6.4 per cent. Under selling operations and marketing operations, you have said that you have salesmen costs, which must be included in there for setting us displays, aisle displays, and also something extra for end displays—is that right?

Mr. CONNELL: Yes.

Mr. URIE: You also have coupon redemptions and so on. I would like to have all these items added together, to the 6.4 per cent, to find the total cost for promotion. After all, all this is promotion. Do you not agree, Mr. Connell?

Mr. CONNELL: In broad terms, yes.

Mr. URIE: So, in respect of this 6.4 per cent, it is a figure which is higher than that. Whether it is considerably higher or minutely higher, we do not know. Could we have that information?

Mr. CONNELL: You could have that information. Certainly.

Mr. URIE: Do you engage in distribution of samples in your stores, in your customer stores?

Mr. CONNELL: Samples? We distribute coupons from time to time, do we not?

Mr. NELLES: Usually samples are obtained by redeeming a coupon. Otherwise, we distribute coupons to people and when they produce the coupon they get a sample.

Mr. URIE: How much have you spent in the last five years in distributing coupons, and what is the percentage of redemption?

Mr. CONNELL: It is extremely small. We could let you have the figure.

Mr. URIE: Please do so. And the same for samples.

Mr. CONNELL: We could let you have that as well.

Mr. URIE: Do you have in-store demonstrations?

Mr. CONNELL: No in-store demonstrations today at all.

Mr. URIE: That is, at this time. Over a past period, 1960 to 1965, did you have any demonstrations?

Mr. NELLES: I would not think so.

Mr. URIE: What does the heading "All Others" in Appendix 6 mean, under "Marketing Operations"?

Mr. CONNELL: This is not Marketing Operations. This is "All Others".

Mr. URIE: I said "under".

Mr. CONNELL: Everything that is not referred to there. This will include administration, basically. This "administration" of course is a cost item in which all sorts of costs go which are not broken out here separately. I would not like to leave you with the impression that is purely administration where we have a lot of people behind desks. This is not the case.

Mr. URIE: Does it have any element of distribution cost in it?

Mr. CONNELL: None at all.

Mr. URIE: I am going to read to you, Mr. Connell, if I may, a short paragraph from a book which came to my attention this weekend. It is by Mr. E. B. Weiss, published in 1964, called "Management and the Marketing Revolution". On page 29, Mr. Weiss says this:

> Co-operation by manufacturers with retailers—especially with large retailers—has traditionally made a mockery of the word "co-operation". Co-operation involves mutual give-and-take. But manufacturer-retailer co-operation has involved, almost exclusively, giving by the manufacturer and taking by the retailer.

He further states this:

> Over the last decade, major retailers—

And this is in the United States—

> —received at least $50 billion—yes, $50 billion!—in direct, or indirect, subsidies from their suppliers. (The direct subsidies include co-operative advertising to the tune of, roughly, $2 billion a year. The indirect subsidies include, for example, functions performed by the suppliers' salesmen that were formerly performed by the retailers themselves. The total cost of this indirect subsidy alone to manufacturers must run up to at least another $2 billion a year.)

Now, Mr. Connell, I would like to have your comments on the applicability of those observations to the marketing function peformed by companies such as your own in Canada.

Mr. CONNELL: First of all, we do not accept that this is a one-way business. As far as the Heinz Company is concerned, in the case of such allowances as we give, we expect performance and generally we get it.

Mr. URIE: I come back to the question I asked several times earlier, on these various items. Are these services performed because you initiate the performance, or are they because the retailer demands them?

Mr. CONNELL: They are there because we initiated them, and we do that entirely of our own volition. There is no question of the retailer coming and

saying to us: "If you want performance in a certain area, you will have to pay us."

Mr. URIE: Is that the case when you talk about aisle displays and end displays?

Mr. CONNELL: These things we would initiate with them, on our initiative. We would never allow any one of our customers to dictate to us the terms on which we do business.

Mr. URIE: Why do you feel that this type of promotion is necessary, since it adds some element of cost to the producer? When you, quite rightly, are proud of the quality of your own merchandise, do you think that the merchandise itself would not sell itself, particularly if the price were able to be lowered somewhat by dispensing with this type of promotion?

Mr. CONNELL: That is a very good question. All other things being equal, if we were to have some sort of legislation which eliminated everything and put everything on one flat plane, fine! But in the competitive world in which we live—I think that earlier on I mentioned this—there are certain legitimate marketing tools, which all people operating in a market will use, and if they do not use these, they would not remain in the market.

Co-Chairman Senator CROLL: Would you break there, Mr. Urie, and we can come back to you later on?

Senator O'LEARY (*Antigonish-Guysborough*): On Mr. Urie's questioning referring to Appendix 6, you have co-operative advertising there. Then you go to Appendix 7, where you have advertising. Does that advertising include any co-operative advertising?

Mr. CONNELL: No, sir, it does not.

Senator O'LEARY (*Antigonish-Guysborough*): Then perhaps Mr. Urie's first question is answered, as to the total. To me it would appear that the total advertising and promotion would amount to the 6.4 on Appendix 6 and the 5.5 on Appendix 7, for a total of 11.9?

Mr. CONNELL: I am sorry, I could not follow that.

Senator O'LEARY (*Antigonish-Guysborough*): You do not follow that?

Co-Chairman Senator CROLL: He is adding the two.

Senator O'LEARY (*Antigonish-Guysborough*): In the analysis of your corporate profit, you break down, on Appendix 6, the cash discounts, volume incentives, co-operative advertising and deal allowances, at 6.4 per cent?

Mr. CONNELL: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): On Appendix 7, you have 5.5 per cent which does not include co-operative advertising, therefore it is all separate items. Therefore the total is 11.9 per cent?

Mr. CONNELL: Right.

Mr. URIE: May I ask one question, senator, arising out of that? I am glad you called my attention to that point. I had not got around to seeing all these charts. In appendix 9, I take it that the percentages which you have shown on Appendix 6 for sales allowances, cash discounts, etcetera, is an average figure, in view of the figures which you show in Appendix 9, which vary from 1.1 to 14.5, for those items marked A, B, etcetera.

Mr. CONNELL: Absolutely.

Mr. URIE: Is that right?

Mr. CONNELL: Absolutely.

Mr. URIE: Why would it be 14.5?

Mr. CONNELL: Well, it depends upon the product. Frankly some products require more allowances to get them off the ground than others. It depends on the life cycle of a product. Sometimes you have to start off by spending more money in a product's early days and so forth.

Mr. URIE: Would you be able to properly analyse Appendix 9 for us? Can you tell us what letters A, B, C, D, etcetera, stand for?

Mr. CONNELL: These represent 10 of our varieties which we can name, if you wish.

Co-Chairman Senator CROLL: Well, you named A.

Mr. CONNELL: Column A is a variety of baby foods; B is a variety of ketchup; C is a variety of soup; D is a variety of vinegar; E is a variety of spaghetti; F is a variety of beans.

Mr. URIE: Do you mean baked beans?

Mr. CONNELL: Yes. I thought everyone knew about baked beans. Column G is beef stew; H is sweet mixed pickles; I is a soup mix; and J is a mustard.

Mr. URIE: Well, the soup mix is the one which is marked 14.5.

Mr. CONNELL: That is right.

Mr. URIE: Why is that so high, sir?

Mr. CONNELL: We felt that it was necessary to spend a disproportionate amount of money on sales for that particular product. This is a figure which we control ourselves. We spend dollars in order to achieve certain volume targets and so forth. Mainly, this is effective as a form of price reduction. It is not strictly an item of cost.

Mr. URIE: How do you mean?

Mr. CONNELL: It is deducted from the price by the trade and is passed on to the consumer. These are not cost items.

Mr. URIE: Are you certain that these costs are passed on to the consumer?

Mr. CONNELL: I cannot be certain of that. In fact, it is impossible for the manufacturer to be certain of a thing like this without doing a certain amount of detailed statistical analysis of retail prices, but, certainly, in our experience, knowing the trade as we do, I would say that we could fairly sum this up by saying that by and large these are passed on to the consumers, and it is an element of price reduction rather than of cost. And I would like to bring this point back to the senator here.

Co-Chairman Senator CROLL: Yes. Senator O'Leary.

Senator O'LEARY (*Antigonish-Guysborough*): Thank you. You did not go into the glass baby food business until May of 1965.

Mr. CONNELL: Right.

Senator O'LEARY (*Antigonish-Guysborough*): And that accounts for 70 per cent of your total baby food business now?

Mr. CONNELL: Today, right.

Senator O'LEARY (*Antigonish-Guysborough*): Now, on appendix 4, and I will select one glass item, namely, your ketchup glass bottle, I note that in the years 1961 through 1965 your percentage costs have been very consistent on that glass cost.

Mr. CONNELL: Yes, sir.

Senator O'LEARY (*Antigonish-Guysborough*): Was there an increasing actual dollar cost in the glass or was it your sales volume that kept this .39 figure pretty consistent? What do you think?

Mr. CONNELL: No, these are actual dollar prices of glass. In other words, this ketchup glass is a price per dozen which we pay to the glass supplier. It has nothing to do with volume as such.

Senator O'LEARY (*Antigonish-Guysborough*): Now, your experience in the baby food glass market has been only since May of 1965.

Mr. CONNELL: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): We notice that it is .41 as compared with .39 on the ketchup glass. Is this the same type of glass that you are using here?

Mr. CONNELL: No, it is entirely different.

Senator O'LEARY (*Antigonish-Guysborough*): It is entirely different. It is a different type of glass?

Mr. CONNELL: It is a different type of glass, a different shape and a different weight.

Senator O'LEARY (*Antigonish-Guysborough*): I realize that there is a different shape and weight involved, but the point I am making is that you are emphasizing in your brief here the increased costs of your baby foods due to glass.

Mr. CONNELL: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): I noticed quite an increase in the cost of tins since 1960. There has been a consistent increase in tins, but glass is continuing to increase that much more, is it?

Mr. CONNELL: As far as tins are concerned, there is in fact a reduction of packaging costs, as you will see on the top of page 5.

Senator O'LEARY (*Antigonish-Guysborough*): I see, but I am looking at Appendix 4 and I notice that in the last year there is an increase of 90 cents per thousand.

Mr. CONNELL: This packaging thing includes the whole packaged article, the label, the case and everything else.

Senator O'LEARY (*Antigonish-Guysborough*): I understand that. The glass price increase that you just referred to, or that you heard about this morning, the 4 per cent increase coming in December of this year—

Mr. CONNELL: Yes?

Senator O'LEARY (*Antigonish-Guysborough*): This is the second increase for the year, as you noted yourself. What was the previous increase?

Mr. CONNELL: Four per cent.

Senator O'LEARY (*Antigonish-Guysborough*): Four per cent. That gives a total of 8 per cent so far, then, before the end of 1966.

Co-Chairman Senator CROLL: Senator O'Leary, do you mind if I ask one question here? Speaking of baby foods, would you mind commenting on this? Baby food is one of the items that D.B.S. includes in its basket.

Mr. CONNELL: Yes.

Co-Chairman Senator CROLL: Whereas it was at 130.2 in 1960, 130.1 in 1961, 130.7 in 1962, 134.8 in 1963, 133.7 in 1964, 138.2 in 1965 and 155.4 in August of 1966. The only comment I have on these figures that I got from D.B.S. is that they have skyrocketed. From 1965 to the present time baby food has gone up 22 points on the index. How do you explain that?

Mr. CONNELL: Well, this index is a retail index, as I understand it, and, frankly, I am not in a position to talk in terms of retail prices. I have covered here at your request the extra cost to the Heinz Company and the price which the Heinz Company has charged the trade over these years.

I am afraid that the way to reconcile this with the D.B.S. index must surely be to take it up from there with the grocery trade. I do not feel that we are really qualified to comment on the prices which the retailer charges the consumer.

Mr. OLSON: Mr. Chairman, I have a supplementary question. Whether you feel that you are in a position to comment or not, do you have a list or do you know what the retailers sell your baby foods for?

Mr. CONNELL: We have from time to time an idea, but it can only be an idea. This is a very difficult subject. It is quite wrong—and I am quite sure that the D.B.S. people would confirm what I am saying—it would be quite wrong for me to give some sort of judgment on retail prices without the sort of detailed statistical analysis which they find it necessary to do themselves.

Mr. OLSON: But you have reports from your salesman, I think, from time to time.

Mr. CONNELL: That is true, but they do not set the price. The trade sets the price.

Mr. OLSON: The present price tag goes on. I am not saying they set it.

Mr. CONNELL: Perfectly true. They have, from time to time, ideas in individual stores of what those prices are, but to give you the proper answer to this—surely must be the average price over a long period of time—would be difficult. One price one day in one store would be meaningless.

Mr. OLSON: Mr. Chairman, I won't persist. I will discuss this later.

Co-Chairman Senator CROLL: Just for your information, the figures we worked out are that, taking a mother with two children on baby food, as a result of this increase, it would cost the mother almost $40 a year. Between $40 and $45 a year extra. It is not the $4 figure which was indicated as your cost.

All right, Senator O'Leary.

Senator O'LEARY (*Antigonish-Guysborough*): On your corporate prices and policy, you stated that you were very well satisfied that you are competitive on the shelf.

Mr. CONNELL: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): It is my experience, and I think your experience too, that you realize that you do process some items which are higher priced on the shelf. I am not speaking of baby foods. I think of a couple of your items which, incidentally I have a distinct preference for, and perhaps for this reason there is some secret that you guard very jealously there with respect to the formulae that go into these products, because I do not think, to my knowledge, that anyone else has been able to come up with them.

Mr. CONNELL: I agree.

Senator O'LEARY (*Antigonish-Guysborough*): But you will agree that these products do not compare in price. However, you have something else to compensate for that.

Mr. CONNELL: Precisely. It is for this reason that I quote in this particular paragraph, "taking into account all factors involved." In other words, we are competitive on the shelves, but that does not necessarily mean in price only.

Senator O'LEARY (*Antigonish-Guysborough*): One final question—on page 8 where you deal with the standardization of container sizes, in the last paragraph you state: "The introduction of new sizes, in our experience, is taken on our own initiative to satisfy an identified market need." Where do you determine this market need which you identify? From what source?

Mr. CONNELL: This comes from all sorts of sources, first of all the basic thinking processes, but I think it is better to talk in terms of examples. For

example, if there were only a 10-ounce condensed soup on the market it would, when reconstituted, make available to any consumer opening a tin 20 ounces of soup. Now that is fine for people who have a big family. If you have four in a family you can serve them five ounces of soup each. But if there were no other sizes available on the market, I would say on the straight basis of logic this would not be satisfactory. Take, for example, the case of the old lady living alone. If this were the only size available it would be useless to her.

Senator O'LEARY (*Antigonish-Guysborough*): Let us take for example pork and beans or beans in tomato sauce. You have various sizes, 28, 20, 15, and the little one is 10, is it?

Mr. CONNELL: Eight ounce.

Senator O'LEARY (*Antigonish-Guysborough):* Who initiated the first eight-ounce tin of pork and beans or beans in tomato sauce?

Mr. CONNELL: I would say the Heinz Company did.

Senator O'LEARY (*Antigonish-Guysborough):* I would think so.

Co-Chairman Senator CROLL: Mr. Allmand.

Mr. ALLMAND: Mr. Connell, at page 8 near the bottom you say "The purist will interpret this as confusing, inefficient and wasteful, but a free society will insist on a reasonable choice being available." In making that statement you don't seem to deny that the things you mention above are confusing, inefficient or wasteful, but you imply there are advantages outweighing these things and these are the advantages of a free society. It could be there is a segment of society that does demand a large amount of choice in food products, sizes and colours, etc. Perhaps this is the greater percentage, but there is another percentage—and there have been studies in the United States and Canada showing there is a lot of poverty—and it seems to me it is the duty of government to protect insofar as it can the uninformed, the weak and the handicapped. These people need food too, and good food. They want the simple packages and at a good price because they spend a much larger percentage of their income on food than do people who are better off. Would your company object to government legislation in the area of packaging—let us say so far as labelling, packaging and restricting sizes and so on are concerned? If we have to try to protect the people we have to try to do something to keep food prices down, not for the wealthier segment, but for the smaller guy. In the United States they have passed a law.

Mr. CONNELL: I would say the Heinz Company and I personally would object very much to any form of government control in this area. I do not think the multiplicity of sizes referred to reacts in any way against any segment of the country. I think the various sizes offer a better per-ounce buy and I do not think the fact you have three or four sizes makes any difference to the social standing one has or the price one wants to pay. Let us suppose you had one certain item made by the state and marketed by the state and you had only the one colour, black, I think the poorer section of the community would get a worse deal than they get today.

Mr. ALLMAND: Some housewives have communicated with me as I am sure they have done with other members of the committee, and have stated that they used to be able to buy the raw materials and make these things themselves. I realize, of course, that most have responded to the provision of convenience foods. One woman told me last night that she used to be able to buy prunes and potatoes and flour in large sacks. Now she goes to the stores and supermarkets and she cannot get these things because everything is in a fancy package and is done up in different packages and different sizes and so on. She really has no choice in the matter and has to take what she can get unless she goes out to the country to get these basic things. It seems to me that the food producer has to

co-operate with the government to provide foods for these people, and if they do not, we have to take the initiative.

Mr. CONNELL: Talking about the Heinz Company products, I don't think we come into this category.

Mr. ALLMAND: Well, in one part of your brief you speak about cars. You say there is a wide variety—there is a cheaper car as well as the Cadillac. Do you put out, without putting out an inferior product, but do you put out a cheaper food and more expensive food?

Mr. CONNELL: No, we could not. The multiplicity of products would simply add to the cost. The result is that this would be false economy of the worst possible kind.

Co-Chairman Senator CROLL: Are you aware of the most recent enactments in respect of the cheese industry and what the Government has done?

Mr. CONNELL: No.

Co-Chairman Senator CROLL: You should be. There was a great deal of confusion in the cheese industry, and they passed some legislation regulating the sizes and how it was to be presented. It seems to me all the cheese people and the consumers are hailing it as the best thing that has been done.

Mr. CONNELL: There are government regulations as to standard sizes of cans and the Heinz Company complies with those. I think in the Heinz Company and in the goods we market we have the right sort of range of sizes to meet identified needs in each of the markets in which we operate.

Mr. ALLMAND: At page 2 you make the statement that you put out 160 different varieties, and say that you have 15 million dozen baby foods each year. I am interested in the trend in the purchase of baby foods. In 1946, for example, 20 years ago, how many types of baby foods would you have put on the market and how many types of varieties? It seems to me there is an increasing trend in young mothers to buy these baby foods. Can you substantiate that? What would be the figures in 1946 and in 1956 as compared with today?

Mr. CONNELL: I do not have the figures here today, but you can rest assured that what you say is perfectly true. The demand for these products was considerably less per capita that it is today. It is on the increase. Unfortunately the birth rate in the meantime is going down.

Mr. ALLMAND: In Appendix 6, in your last column which deals with profits, there is a very surprising drop in 1965 from 4.7 per cent in 1964 to 2.0 per cent in 1965. Could you give us the figures in dollars that this 2 per cent represents? I am wondering whether in fact although your percentage of profits went down whether the total profits in dollars went up.

Mr. CONNELL: In 1965 they were $1,215,000. In 1964, the year before, they were $2,751,000.

Mr. ALLMAND: Did your volume go down?

Mr. CONNELL: Our volume in this period went up.

Mr. ALLMAND: Then, could you attribute this to cost?

Mr. CONNELL: And certain non-recurring expenses associated with the changeover from tin to glass containers.

Mr. ALLMAND: What is your estimate for 1966?

Mr. CONNELL: We do not expect any significant improvement this present year.

Mr. ALLMAND: That is all for now, Mr. Chairman.

Co-Chairman Senator CROLL: Mr. Olson?

Mr. OLSON: Mr. Chairman, I would like to turn your attention to page 6 of the statement under the heading, "Corporate-Pricing Policy," and in the second paragraph you say that:

> We do not employ fixed or percentage mark-ups on our products, preferring to concentrate on providing the best possible product at the lowest price, consistent with maintaining our competitive position and earning a fair return on our investment.

I am interested in the statement that you concentrate on providing the best possible product at the lowest price. Do you, at the beginning of the year, when you set your pricing policy, in as much as you do not use a constant or fixed percentage of mark-up—I presume you set a target of return on investment you require, and then try to anticipate or predetermine all of your other costs; and on that basis you set the price, your selling price for the products?

Mr. CONNELL: No, it does not really work that way. We are a multi-product company. We do not take a look at the required profit and decide a product is going to sell for X, Y or Z. Indeed, if we tried to do this, we would be out of business before very long. As I say, we are a multi-product company. We have a baby food market, and you have to consider all the factors associated with the baby food market, principally the competitive situation. We do not sit around trying to decide what price we will charge. The price of baby foods between 1960 and 1964 was constant, no change at all. In 1965 came the first increase over those five years. So, we consider all the relevant factors associated with individual markets, and put the individual products together, and the result forms a corporate total.

Mr. OLSON: I can understand and appreciate that, but I am wondering about this phrase, "the lowest price," and you say you have to take into consideration all the competitive factors. I can understand that.

Mr. CONNELL: Sure.

Mr. OLSON: Very much so. It seems to me rather than the lowest price, taking into consideration all of the competitive factors, what you are actually saying is that you try for the highest price, considering the competitive position.

Mr. CONNELL: No, on the contrary, we take the lowest price, because our type of business is the sort of business which thrives on the lowest price. The best possible price to the consumer, the best possible value for money, gives rise to the best possible demand curve.

Mr. OLSON: How do you decide, for example, you are going to sell, let us say, ketchup at whatever the mark-up happens to be? Let us assume it is 10 per cent. You decide baby food is going for 8 per cent. Is this simply because of what you have seen your competitors doing, or do you not initiate any of these price patterns yourself?

Mr. CONNELL: We put together the various cost items making up the total profit and loss, shall I say, on the baby food group of products. Involved in that there are all sorts of items, including packaging, ingredients, marketing, and so forth. This gives us the resulting profit based on current price. We cannot think in terms of increasing any of these prices in a vacuum, because we know our competitors will not follow. If our costs have gone up—and these costs are common to our competitors, and we know that—and our profit has gone down to a point where we cannot any more live with it, we would not hesitate to put our price up.

Mr. OLSON: I am trying to get at whether your company—which is one of the largest ones—

Mr. CONNELL: Yes.

Mr. OLSON: Do you lead in the setting of prices, or follow your competition all the time?

Mr. CONNELL: We do not follow our competition, generally speaking. Again, you cannot generalize on this. You have to talk in terms of individual markets. In baby foods we are the market leaders, but it is not a question of leading or following, because we have 80 per cent of the market. Our competitor is sitting over there and he would love us to put the price up at a time when our costs did not justify this, because he is sitting there waiting for us to do that and would take away our market over night.

Mr. OLSON: I realize that, and I am interested in talking with you about the setting of this price, because every witness who has appeared before us so far keeps bringing up the same point that you have brought up, that "We sell our products at the lowest possible price consistent with the competitive position" and so on, "and earn a fair rate of return on our investment."

Mr. CONNELL: Yes.

Mr. OLSON: Someone has to set the trend. If there is going to be a price movement, for the other people to follow the competitive position or to meet this competition, someone has to lead. You have 80 per cent of the baby food market?

Mr. CONNELL: Yes.

Mr. OLSON: I presume you are the leaders in this?

Mr. CONNELL: Yes, and when the point is reached where we are not getting an adequate return, we would not hesitate to increase our price provided these are, in fact, recurring long-term cost trends which we know our competition would follow. Then we would not hesitate to put our price up.

Mr. OLSON: Statistics coming from the D.B.S. indicate that baby foods went up some 22 points—I am not quite sure, is that in the last year, from 1965 to 1966?

Co-Chairman Senator CROLL: Yes, that is right.

Mr. OLSON: Were you the first to move these prices up so that there was a final result of an increase of 22 points in the index?

Mr. CONNELL: I suppose we must have been. Certainly—I am trying to think of this. I suppose the first item that caused this movement would have been the changeover from cans to glass. That automatically would have put up the price to the consumer.

Mr. OLSON: That is about 2 cents, as far as you were concerned?

Mr. CONNELL: One cent so far as the trade is concerned. Two cents in actual cost. We absorbed a cent and passed a cent on to the trade.

Mr. OLSON: Surely, you know what the retailers are selling your products for?

Mr. CONNELL: No, I do not. I do not really feel it is fair to question me on this, because I cannot give you an accurate answer on this. You have seen all the chains, and so forth, and I am sure they have given you all the detail on retail prices that they are much better qualified to give you than I am.

Mr. OLSON: You do not know what happens to the price of your products on the retailers' shelves?

Mr. CONNELL: Yes, we have an impression, and we know jolly well that in this store it went up one cent, or in that one it did not, or in that one it went up after three months; but the sum total of all this is beyond us.

Mr. OLSON: When you changed the price when you packed in glass—I am looking for your reference—your price on baby food went up, I believe it was 12.6 cents per dozen.

Mr. CONNELL: In glass?

Mr. OLSON: Yes.

Mr. CONNELL: Yes, page 3.

Mr. OLSON: Was there more than a one-cent increase per unit on these in the retail stores?

Mr. CONNELL: I should not think so, for a minute.

Mr. OLSON: You do not think so?

Mr. CONNELL: No.

Mr. OLSON: Without being specific, approximately how much do retailers, say, sell products at for which they pay $1.233 a dozen?

Mr. CONNELL: In round figures I have in front of me, for example, 4-3/4-ounce jars of strained food, four for 55 cents. And that is a typical price which is quoted, but you cannot possibly say that is the average for the country all the time. It is a typical price today in a certain store or a certain group of stores.

Mr. OLSON: Four for 55 cents?

Mr. CONNELL: Yes.

Mr. OLSON: Thirteen—whatever it is—each?

Mr. CONNELL: 13.75 cents each.

Mr. OLSON: This is their selling price on a product that they paid you a net price of $1.233 per dozen?

Mr. CONNELL: That is right, I think.

Mr. OLSON: At the bottom of page 3, Mr. Connell.

Mr. CONNELL: Yes, this was the charge immediately after the changeover. In actual fact, if you refer to page 4, the present price in jars is above that because of the cost increases set out there, but that was the cost immediately after we changed over from tin to glass.

Mr. OLSON: What did you sell these same products for in 1965?

Mr. CONNELL: In 1965, of course, we were not selling the jar at all—not until May. We started to sell it in May for the first time.

Mr. OLSON: The same product in tins was $1.107.

Mr. CONNELL: The price on the shelf to the consumer was less than—there is a 2-cent differential today.

Mr. OLSON: Do you think that the DBS figure of an increase of 22 points is accurate, or is there something wrong with the sampling?

Mr. CONNELL: I do not feel qualified to answer that. I am quite sure it is an intelligently compiled panel, and that the figures are accurate so far as they go. But, in respect of the relationship between those figures and what we are talking about now—that is, the actual index movement—I just have no information at all. What do these mean?

Mr. OLSON: They mean that it has moved up 22 points on the basis of 100 in 1949.

Mr. CONNELL: What does that mean in cents per package?

Mr. OLSON: Well, I am not exactly sure, except that it has moved from 132 or 133 in 1965 up to 155, I understand, in 1966, using again the basis of 100 in 1949.

Mr. CONNELL: It is a very difficult thing to understand. I read very carefully the record of the session this committee had with DBS, and obviously it is extremely complicated to try to relate these numbers to cents on the shelf.

Co-Chairman Senator CROLL: I have here the consumer price index for October dealing with food. It is 135.9 in 1965, and that is when your figure was 138.2. Well, let us take 1964; you are 132, and it is now 148. That is the general

rise in food. That is 16 points, is it not, and yours is 22. You outran the general food market by some points.

Mr. CONNELL: Yes, but the relationship between those figures and actual cents is what is foxing me.

Co-Chairman Senator CROLL: It is foxing the consumer too.

Mr. OLSON: When you are selling the same product—we have not identified the product because, I suppose, it covers a wide range of baby foods—at $1.10 per dozen, what were the retailers selling it for then, on an average? You gave us a figure of $1.37, I think as the price that was used when the retailer paid a net price of $1.23 per dozen. What were they selling your baby food for when they paid $1.10 a dozen?

Mr. CONNELL: That would be around about the beginning of 1965. That is a tin packed product?

Mr. OLSON: Yes.

Mr. CONNELL: It is what we call a 5-ounce tin. I am sorry, but I cannot tell you. I have not got that information.

Mr. OLSON: Now, Mr. Chairman, I would like to move to another subject.

I refer you to page 8, respecting corporate and private brands. You say that Heinz packs no private labels, but that your policy in this regard is entirely flexible. I wonder, Mr. Connell, if you could pack a very large order of baby food with a brand on it other than your own, and sell it to the trade at a lower price than that at which you are selling it now, when you include all the national promotion of the name "Heinz". I am referring to a product of the same quality. Suppose you had an order for 100,000 dozen—a very large order—could you pack this and deliver it, and make money on it?

Mr. CONNELL: If we had the spare capacity to do it then we could obviously do it on a marginal price basis. In other words, there would not be any added-on cost. Obviously, this would be a straight reduction from our own sales, because babies are not going to suddenly start eating a larger amount of baby food. Our own sales would fall off, and our marginal cost would no longer apply, and we would have to go back to our full costing.

Mr. OLSON: Have you never had an offer for a private brand of baby food?

Mr. CONNELL: Not that I am familiar with.

Mr. OLSON: That is interesting. That is all for the moment.

Mr. MCCUTCHEON: I would like you to refer back, Mr. Connell. I did not catch the figures you gave us for profits. I jotted down the figure of $1,215,000 and $2,751,000. Would you be good enough to give me the years for those figures?

Mr. CONNELL: The figure of $1,215,000 is in the right hand column under 1965 of Appendix 6. The other figure of $2,751,000 was for the year before.

Co-Chairman Senator CROLL: Would you give us the figures for the balance of those years?

Mr. CONNELL: Going back to 1960, it was $1,662,000; 1961 was $2,088,000; 1962 was $2,237,000; 1963 was $2,703,000; 1964 was $2,751,000; and 1965 was $1,215,000.

Mr. MCCUTCHEON: I understand that tomatoes to your firm and other canning firms are bought on contracts each year negotiated through the Ontario farm marketing legislation.

Mr. CONNELL: That is true.

Mr. MCCUTCHEON: What was the contract price with the producers in 1965 for tomato tonnage?

Mr. CONNELL: If you do not mind I will refer this question to Mr. Crerar, who is much more competent to deal with this than I am.

Mr. CRERAR: It was $45 a ton for number ones—that is No. 1 grade on government inspection.

Mr. MCCUTCHEON: What was that again?

Mr. CRERAR: $45 per ton. This is in 1965.

Mr. MCCUTCHEON: In 1965?

Mr. CRERAR: Yes. The No. 2 price was $29; we buy tomatoes in two grades.

Mr. MCCUTCHEON: Yes. Would you tell me what was the contract price in 1966—that is, for this crop year?

Mr. CRERAR: No. 1 grade was $48.95 per ton.

Mr. MCCUTCHEON: And the No. 2?

Mr. CRERAR: $32.95.

Mr. MCCUTCHEON: Both of them are up about $3?

Mr. CRERAR: Yes, $3.95.

Mr. MCCUTCHEON: Well, then, is your tomato run concluded?

Mr. CRERAR: Yes, sir.

Mr. MCCUTCHEON: You have an estimate here of $47.62 a ton.

Mr. CRERAR: Yes, because we were running around 80 per cent of number ones.

Mr. MCCUTCHEON: What was your pack this year? Is it up?

Mr. CRERAR: No, we had a bad harvest.

Mr. MCCUTCHEON: How much are you off?

Mr. CRERAR: We are off 40 to 50 per cent of what we had hoped to get.

Mr. MCCUTCHEON: Would you please tell us what your largest single selling item is?

Mr. CONNELL: Baby foods.

Mr. MCCUTCHEON: What percentage of your gross sales would be in tomato products?

Mr. CONNELL: Could we come back to that? We will have it calculated.

Mr. MCCUTCHEON: Yes. I have two or three other points I should like to check with you, if I may. The ingredients in your soup amount to 29.8 per cent?

Mr. CONNELL: Yes.

Mr. MCCUTCHEON: In beef stew, 29.7 per cent; pickles, 41.7 per cent; and ketchup, 27.4 per cent. Now, according to the other table which you give us on page 10—we are talking about fresh tomatoes here, and it would appear that they would have only about 22 percent of the ingredient.

Mr. CONNELL: Yes, it could be.

Mr. MCCUTCHEON: Am I correct?

Mr. CONNELL: Yes, it could be. Wait a minute; have we not got that analyzed? The tomato juice is analyzed in Appendix 8, and it shows 19.7 for ingredients.

Mr. MCCUTCHEON: This, of course, is juice, is it not?

Mr. CONNELL: That is right.

Mr. MCCUTCHEON: I was thinking more of the canned tomatoes.

Mr. CONNELL: Canned whole tomatoes?

Mr. MCCUTCHEON: Yes.

Mr. CONNELL: We do not do this. We do not do this at all. I have the answer to your previous question. Total tomato products take 31.8 per cent of our total turnover.

Mr. McCutcheon: In Appendix 3 you refer to pea beans. Are those ordinary white beans?

Mr. Connell: Yes, ordinary white beans.

Mr. McCutcheon: Grown here in this province?

Mr. Connell: Yes.

Mr. McCutcheon: Are they not under a marketing scheme with the producer?

Mr. Connell: I do not think so.

T. D. Smith, Vice-President, Services, H. J. Heinz Company of Canada Limited: They are purchased through bean dealers.

Mr. McCutcheon: My understanding is that there is a marketing arrangement for white beans and that the price of them is set by negotiation, not in the same manner as with tomatoes, but is the market on those things up?

Mr. Connell: Oh, I should think so, yes, substantially. In 1966 it was $202 per ton delivered.

Mr. McCutcheon: Not from the daily press quotations of white beans as compared to a year ago, as I have read them.

Mr. Smyth: This is last year's price of beans. Last season there was a very short crop of beans, and the price is down.

Mr. McCutcheon: Again, I should like you to turn to Appendix 6. I think it might be helpful if under the headings "Ingredient material" and "Packaging material" was broken down.

Mr. Connell: Yes.

Mr. McCutcheon: Could that be done with respect to the two subjects involved?

Mr. Connell: I think we have that readily available, actually. Last year in 1965 ingredient would be 24 per cent and packaging 25 per cent.

Co-Chairman Senator Croll: Give us the figures from 1960 on.

Mr. Connell: Back to 1960 it is 24 per cent and 24 per cent; the next one would be 24 per cent and 24 per cent; the next one 24 per cent and 23 per cent; the next one also 24 per cent and 23 per cent; and the next one also 24 per cent and 23 per cent; and the next one 24 per cent and 24 per cent.

Co-Chairman Senator Croll: In 1965 it was 24 per cent and 24 per cent?

Mr. Connell: Yes.

Mr. McCutcheon: Now Appendix 5—

Co-Chairman Senator Croll: Are you following that up, Mr. McCutcheon? Does that mean that ingredient versus the packaging are equal?

Mr. McCutcheon: That is what it means.

Mr. Urie: Except tomato juice.

Mr. Connell: This is the total mix. The individual products will go up and down all over the place.

Mr. McCutcheon: It is a fair statement to make that cans, in other words, are worth as much as the product?

Mr. Connell: In some cases.

Co-Chairman Senator Croll: I had hoped that somebody would say so, so that we would understand it.

Mr. McCutcheon: I had presumed, Mr. Chairman, that everybody here would grab that quickly.

Co-Chairman Senator Croll: You assumed it because you know it.

Mr. URIE: In point of fact, Mr. Chairman, it is shown how it varies. On tomato juice, according to Appendix 8, ingredient is 19.7 per cent and packaging 34.3 per cent.

Mr. CONNELL: That is an extreme case.

Mr. URIE: But it shows the variation.

Mr. MCCUTCHEON: Appendix 5 gives the labour rates. Do you have in your industry a large percentage of female employees?

Mr. CONNELL: I have here with me Mr. Smyth who is particularly briefed with respect to Appendix 5.

Mr. SMYTH: Approximately one-third of the labour force are women.

Mr. MCCUTCHEON: Would you have the number of hourly rated male employees in each of the years that we have discussed—only the last five years.

Mr. SMYTH: I do not have it with me, no.

Co-Chairman Senator CROLL: What was your question, Mr. McCutcheon?

Mr. MCCUTCHEON: The actual numbers of employees. These figures are not as meaningful, I think, as if we had numbers along with them. Another meaningful thing to me would be the sales volume in the various years so that we could determine the productivity of the workers.

Mr. CONNELL: We have that.

Mr. OLSON: Fifty-four cents an hour as a fringe benefit, is that above the $2.42 in 1966?

Mr. CONNELL: Yes, it is in addition to that figure there.

Co-Chairman Mr. BASFORD: What happened to the executive figures in that period?

Mr. CONNELL: I am afraid we just don't have that.

Mr. NELLES: No, it is not readily available.

Mr. CONNELL: Perhaps we can pass that on to you as well.

Mr. MCCUTCHEON: I am a little intrigued about why you are still putting up baby food in tin cans everywhere except Ontario and Quebec, where it is in glass. Would not this be an added cost to you people for 30 per cent of your product? Why do you still stick to it?

Mr. CONNELL: That is a very good question, and one we are wrestling with right now. I said here that we are not anxious to go into baby foods in glass in the rest of Canada. This does give extra cost to the consumer on account of the distances that have to be covered to the west coast and the Maritimes, and the extra weight of glass adds to the freight cost as well. So it is not in the best interests of the consumer to change over to glass, unless she demonstrates she wants it. We are not going to force it, as indeed it was not forced in Ontario and Quebec. We may be forced to do as we have done in Ontario and Quebec. We hope it will be slow rather than quick.

Mr. MCCUTCHEON: Have your economists come up with any figures on the extent of your decline in profit as a result of the decreased birth rate in this country?

Mr. CONNELL: We know the effect it has had on our baby foods business, yes. We have not the figures available here.

Mr. MCCUTCHEON: Would it be marked?

Mr. CONNELL: The effect of the declining birth rate on the total baby food market is quite considerable. It will stabilize sooner or later.

Co-Chairman Mr. BASFORD: Perhaps you should get into the drug business.

Mr. MCCUTCHEON: I have here a newspaper item that appeared on October 31, which says that Swift Canadian dropped out of the baby food lines. With

them going out of business will that not increase your profit potential and your competitive position?

Mr. CONNELL: They were never really in the baby food market; and I say this in the kindest possible way. This is quite genuine. They were in a very small portion of the market only. They sold a packed meat product. It was only on the fringe of the baby food market and was a small percentage of the total and their dropout has not begun to cancel out the decrease in the market caused by the fall in the birth rate so far as we are concerned.

Mr. MCCUTCHEON: Thank you, very much, Mr. Connell.

Co-Chairman Senator CROLL: When the question was asked with respect to hourly wages you dealt only with males. Why not females?

Mr. SMYTH: Female is included in the average as $2.37.

Co-Chairman Senator CROLL: You said about a third were female.

Mr. SMYTH: Yes.

Co-Chairman Senator CROLL: What is your average?

Mr. SMYTH: The average for male and female is $2.37. Incidentally, there are approximately 1,200 male employees, to answer your question, hourly employees, involved in this salary range.

Mr. MCCUTCHEON: This is in 1966?

Mr. SMYTH: The average, yes.

Co-Chairman Senator CROLL: Mr. Saltsman?

Mr. SALTSMAN: On the question of hourly rates, did I understand that you will be getting this as a percentage of sales, in other words, how the hourly rate compares with percentage of sales for these years?

Mr. CONNELL: You can have that, it will be no problem at all. We have not that information here, but we will send that forward as a supplementary exhibit.

Mr. SALTSMAN: I would like to get some information on the difference in price per ounce in various sized packages of different products. I understand you have an extensive range in baked beans, you have a number of different sizes.

Mr. CONNELL: I anticipated there would be a question something like this, but I picked the wrong product. You have asked for baked beans, out of all our varieties. I have picked tomato juice, but I can give the other later on. I have tomato juice, with the cost per ounce on the six sizes. I did not produce this one specially, but took one at random. The cost is as follows:

Size of Package	Cost per ounce
6 ounce	$ .0118
10 ounce	.0100
15 ounce	.0079
20 ounce	.0076
48 ounce	.0068
105 ounce	.0060

Let me get this point over. These are the list prices which we charge the grocery trade. You will see there that these prices, on a cost per ounce basis, decline as the size increases.

Mr. SALTSMAN: I see that in the six ounce size the consumer pays almost twice as much per ounce as in the ten ounce size.

Mr. CONNELL: Nevertheless, there is a demand for that size.

Mr. SALTSMAN: How do you determine that this market exists for this particular size?

Mr. CONNELL: First of all, it is a special size for a special requirement. It is an individual size. There is a very considerable sale of this particular product. The demand itself, I think, fairly indicates the amount of need.

Mr. SMITH: May I ask a supplementary question? How does your company decide the size of containers generally, when you make a change from 15 ounce to 12 ounce or something like that? A lot of questions we get from the housewife say, why do they bring out a 14 ounce size or a 19 ounce size?

Mr. CONNELL: The answer is that there are Government regulations which stipulate the sizes we can use, and those are the sizes. As to how those came about, I would need to do a bit of research. We are not dissatisfied with the sizes at all. I think they fit in pretty generally with the market needs. In other words, this was something established by a Government measure. This does not apply to jars, it is only in cans that we have the Government special sizes.

Mr. SMITH: How do you decide the size of the glass containers as $3\frac{1}{2}$ ounces rather than 4 ounces, using that as an example?

Mr. CONNELL: I think we have just got to think about the needs of consumers, at various points of the consumption scale. Let us take an extreme example, as I think that is the easiest way to answer this. Let us talk about soup. The individual person eating soup will want to eat, I suppose, around about 5 ounces. Now, 5 ounces of soup is a reasonable plateful of soup, so you want to keep it close to that 5 ounces. I do not think you could get down to 5 ounces, it would be completely impracticable, but that is the starting point.

How much soup does a person want? A soup plate will take 5 ounces, and be comfortably full. Then you have to find out the number of persons who will be consuming soup at once. In some families there will be two, in other families there will be more. You can statistically break down the family in size throughout the country and find out the figures. We have consumer attitude studies which show this. This is a fairly standard type of research, which shows the consumption pattern, the number of portions being served at once, and so forth. This is not quite as difficult as it might seem. It sounds like a very murky area, but it is not really so.

Mr. SALTSMAN: There are six sizes of this product. You have given an explanation for the six ounce size and perhaps also for the ten ounce, which is fairly obvious. Take the 15, 20 and 48 ounce sizes. Perhaps the larger one would be for restaurants. Why the other ranges? How do you justify them?

Mr. CONNELL: We justify the other ranges, because these slot into the various areas of consumer economy. There are consumer demands which have dictated these various sizes. Some people like to take 40 ounce cans; they like to buy a big pack. There is a saving there, though it is not an awful lot. Some people like to have these large packs and eat a lot. Some take it for a small family and some for a big family.

Mr. SALTSMAN: For argument's sake, if you had three sizes rather than six sizes, would not this have some effect on the overall cost of production of the product?

Mr. CONNELL: No, it would not have any effect at all.

Mr. SALTSMAN: Do you mean that the standardization would not mean that there would be not as much machinery involved, not as much inventory, and the retailer would not need as much shelf space, the retailer would not have as much inventory? Would it not have that effect in reducing prices?

Mr. CONNELL: It might, it might, it might. I think it would be marginal.

Mr. SALTSMAN: But would it not have enough effect to reduce the 15 to .0076 instead of the present .0079?

Mr. CONNELL: No, I am sure it would not. I do not think the marginal saving on this reduction in number of sizes, would affect the retail price at all.

Mr. SMITH: The six ounce size of tomato juice does not particularly relate to a mix with another well known beverage that is sold in other places, does it?

Mr. CONNELL: In some cases, yes.

Mr. SALTSMAN: I would like you to look at the transition from tins to jars in baby food. Can you say from your marketing research what were the reasons the customer changed from tin to glass? You indicated that your response was because of the customer demand, that there was a demand for a change from tin to glass?

Mr. CONNELL: Yes.

Mr. SALTSMAN: What were the reasons?

Mr. CONNELL: I actually read them out, and I am afraid someone has taken my notes.

Co-Chairman Senator CROLL: The reporter took the notes but he will bring them back.

Mr. SALTSMAN: Could you give me a fast explanation right now?

Mr. CONNELL: Yes. It was really the things which the customer associates with the glass pack. I am not saying I agree with them. It is a fact that the customer thinks the glass pack is more hygienic. Certainly, after it has been opened, she thinks it is more hygienic. She thinks by re-closing a baby food jar, for example, it stays hygienic, whereas in fact it does not stay more hygienic than putting a lid or some sort of cover over a tin.

Mr. SALTSMAN: Do you think there is any validity in the customer making this assumption? Do you think the consumer is wrong in making this assumption?

Mr. CONNELL: I think the consumer is always right.

Mr. SALTSMAN: In which way do you mean that the consumer is always right—that the assumption she was making was correct, that these were the reasons for making the change?

Mr. CONNELL: I think so.

Mr. SALTSMAN: Or that they were the correct reasons, that you agree it is more sanitary in a glass than in a tin?

Mr. CONNELL: No, I do not agree that it is more sanitary in a glass than in a tin. I think it is fair to say that a baby food package where you can twist the lid off is a lot easier to handle than the can which you have to open. Also, it is much easier to reseal it and it is much more convenient. You can take the lid off, put a little on a plate and warm it, and put the cap back on. That is much easier.

Mr. SALTSMAN: So in effect you say that the customer made a good judgment in making the change from tins to glass?

Mr. CONNELL: Yes.

Mr. SALTSMAN: If there are other benefits, I presume that one of those benefits is that it is easier to store part of the food, in case the child does not need it all at once. Have you considered going into a larger size of glass rather than the two ounce size, or whatever it is?

Mr. CONNELL: It is $4\frac{3}{4}$ ounce, in strained foods.

Mr. SALTSMAN: Let us take a six ounce jar. I presume the six ounce jar would not cost much more than the jar you are using now?

Mr. CONNELL: It would cost considerably more, actually.

Mr. SALTSMAN: How much more?

Mr. CONNELL: In fact, we have two sizes. We have the smaller size in strained food for young babies and the larger size, the eight ounce glass pack for junior foods. In other words, we take into account the different consumption rates at various stages of the baby. You do not want to give the mother a whopping great jar which will take probably a week to get through with a very young baby. You have to take that into account. It is not good to keep baby foods indefinitely. After they are opened, they should be consumed fairly soon. We are insistent, and I am sure the customer is more insistent, that for the young baby one needs a small package, a small jar, and for the older baby she needs a larger package, and she gets it. If there were any advantage in giving her a bigger jar, believe me we would be on to it, or our competitors would be on to it.

Mr. SALTSMAN: You said you have 80 per cent of the market?

Mr. CONNELL: In round figures, 80 per cent.

Mr. SALTSMAN: How many competitors share the rest of the market?

Mr. CONNELL: Today we have one competitor, and the other fellow who was referred to earlier who is going out but who had only a small share in the first place.

Mr. SALTSMAN: So you have one competitor sharing the market. With 80 per cent of the market, should you not have some considerable cost advantage in productivity to the extent that you should be able to lower prices below your competitor who has only 20 per cent of the market?

Mr. CONNELL: Well, the raw materials, the packaging, the labour, all these cost the same thing. We are operating our machines at about the same speed. I do not think we are talking about a tangible factor.

I mean, theoretically, obviously you are right, but I do not think we are talking about a tangible thing which can be reflected on a retail shelf price.

Mr. SALTSMAN: When you sell to other people, the amount you sell should have some bearing on the price. If you sell a large quantity to them they get some cost advantage, do they not?

Mr. CONNELL: Yes.

Mr. SALTSMAN: Do you not also get a cost advantage when you buy four times as much as your competitor, let's say, whether it is steel, glass jars, or anything else?

Mr. CONNELL: No, there are laws in this country which prohibit this sort of differential pricing.

Mr. SALTSMAN: We are talking quantity pricing. Surely there are no laws that prohibit you from being given a discount if you buy larger quantities.

Mr. CONNELL: Fair enough. Let me ask Mr. Smyth to answer that question.

Mr. SMYTH: The glass industry does not give volume discounts.

Mr. SALTSMAN: Does the steel industry give volume discounts?

Mr. SMYTH: Yes, can companies do.

Mr. SALTSMAN: Can you not buy larger machines, more automatic machines, faster machines, in order to get a larger volume?

Mr. CONNELL: No, sir. At the moment we have the fastest operating machines in the world.

Mr. SALTSMAN: Your competitors have machines equally as fast, even though they have a smaller percentage of the market?

Mr. CONNELL: I am sure they do. If they have not now, they soon will have.

Mr. SALTSMAN: How do your prices compare with those of your equivalent in the United States?

Mr. CONNELL: You mean our baby food prices?

Mr. SALTSMAN: Yes, your baby food prices.

Mr. CONNELL: I have not got a clue. I just do not know. Do you mean on the shelf?

Mr. SALTSMAN: Yes. I mean the prices you would sell goods for in the store?

Mr. CONNELL: I have not any idea at all.

Mr. SALTSMAN: Have you never displayed any interest in finding this out?

Mr. CONNELL: I have never displayed any interest. I must be careful; I almost said it was not relevant. What I should say is that it is irrelevant as far as my Canadian company's operations go. We do not know what they are selling at in the United States. They have a different market altogether, and there are all sorts of different factors involved. In the United States they have a huge market; and volumes in the scale of the economy, which they can bring to bear, really begin to talk.

I suppose that glass packaging, generally, is an awful lot cheaper in the United States. We are talking in terms of a population of 160 million compared to 20 million in Canada.

Mr. SALTSMAN: You just said "economy scale" in Canada—

Mr. CONNELL: It is a question of scale. We are talking about an 80 per cent share and a 20 per cent share in the Canadian market. This is really minute.

If you really want to talk about scales, I suggest you look at the raw material market in the United States, and I am talking about the cost of making glass, for example, not the cost of selling baby food.

Mr. SALTSMAN: Do you have any idea how much more you pay for glass in Canada than they pay for glass in the United States?

Mr. CONNELL: We do not compare these things. We do not get into this area at all. If we felt that it would help us, of course, then, we would obviously do that.

Mr. SALTSMAN: How do your profits in amounts compare to the profits in the United States?

Mr. CONNELL: We have no figures on the American company at all. Those figures are not published. I have the consolidated statement here, which shows that in fact our consolidated world sales were $620 million, and our net income was roughly $23 million; that is 33 per cent of net sales.

So, in fact, our figure is about exactly the same, as I recall it. No, ours is 2 per cent which is lower. This year it is less than the consolidated average.

Mr. SALTSMAN: Have you any idea how your production costs or productivity compare with those of the Americans?

Mr. CONNELL: We have run no such comparisons, sir.

Mr. SALTSMAN: Have you made any trips down—all right, Mr. Chairman, I will let someone else take over.

Mr. ALLMAND: Mr. Chairman, this is a supplementary question. In Canada you have no effective competitors. Do you know how many effective competitors there are in the United States?

Mr. CONNELL: I believe there are two in the United States.

Mr. ALLMAND: So, there are three major producers in the United States?

Mr. CONNELL: Yes, which is probably about right for a market that size. I do not think there would be room for three in Canada.

Mr. URIE: Mr. Chairman, I have a complementary question. Mr. Connell, the net profit as a percentage of sales for 1965 is 2 per cent in Canada. The previous range was 4.2 for 1961 to 4.7 in 1964. How do those percentages compare with the percentages in the United States during the same periods?

Mr. CONNELL: Let me see. Let us take the previous year, which would be 3.5 per cent.

Mr. URIE: In the United States?

Mr. CONNELL: So, in fact, we are better than average. The Canadian company was better than the consolidated average. Ours was 4.7 in Canada whereas the consolidated was 3.5. The year before was 3 per cent; the year before that was 2.7; the year before that was 3.8.

Mr. URIE: And yours was 4.2 every year, then, until 1965?

Mr. CONNELL: Well, the consolidated figure for 1960 was 3.7. So that the figures at the beginning and the end were down—fractionally down at the beginning and well down at the end.

Mr. URIE: They are higher. It is more than a percentage higher. You gave this explanation earlier. Why is your net profit down to 2 per cent in 1965 and will be about the same in 1966? Is it a question of capital expansion?

Mr. CONNELL: The capital aspect comes into it. We had to expand considerably, and certain costs which are associated with that are with us all the time.

Mr. URIE: But that would be more than offset by increased sales.

Mr. CONNELL: It was not last year and neither is it this year, because we have a declining birth rate in the meantime as well, and baby food is our main product so that the volume there is in trouble. Also, we had a lot of packaging costs in our changeover from one range of products to the other. Such a changeover is a very expensive thing, and something we would not want to have to do very often.

Mr. URIE: This will be thinned out in the next year or two.

Mr. CONNELL: I certainly hope so.

Mr. SALTSMAN: Mr. Chairman, I would like to ask you to discuss the possibility of getting a comparison between a Canadian and a United States operation, in terms of prices, profits and production costs. I think it is fairly important to the consumers in Canada to know how we compare in this particular way.

Co-Chairman Senator CROLL: We have the profits. Mr. Urie just indicated what the profits are. It would be pretty difficult to get those other figures, I should think.

Mr. CONNELL: I do not honestly feel that a comparison of these profits is terribly meaningful. We are talking about entirely different things. The market shares enjoyed by the Heinz Company in the United States are nothing like those in Canada. You cannot really do this sort of economic analysis by looking at results in the Heinz Companies in Canada and the United States. You have to get down to individual components of cost.

If you talk about the price of a glass jar, a tin can or a label on a general basis—not on a cost basis—then you are getting somewhere; but to compare the Heinz Company of Canada with the Heinz Company of the United States, you are just talking chalk and cheese. They are two completely different things.

Co-Chairman Mr. BASFORD: Mr. Saltsman, I think Dr. James has some material to answer your question.

Mr. SALTSMAN: Fine. Since most of your sales, as you have indicated, are to large wholesalers and retailers, why do you have such rather large selling costs, which appear to be somewhere around 15 per cent? Why do you have to spend such a large percentage of your gross on selling, since most of your selling is done to very large companies?

Mr. CONNELL: Our sales cost is not 15 per cent.

Mr. SALTSMAN: Well, on some of these items, if you start adding them together, you get 15 per cent.

Mr. CONNELL: I do not think you should do that.

Mr. SALTSMAN: What would you say your sales costs are, then?

Mr. CONNELL: At the moment, over all, they are something like 5 per cent or $5\frac{1}{2}$ per cent.

Mr. SALTSMAN: Well, do you not include advertising and do you not include items called selling and deals and allowances? Do these not figure in your sales costs?

Mr. CONNELL: You are getting into technicalities now.

Mr. SALTSMAN: I am not getting into technicalities. I am getting into sales costs.

Mr. CONNELL: Sales cost as such means the cost of selling goods only. This in fact means the cost of running a sales force. But we must embrace separately also the marketing cost and the advertising cost.

Mr. SALTSMAN: Let us take sales and marketing costs together, then. I think that it is pretty difficult to separate those from each other anyway.

Mr. CONNELL: We have no difficulty there. They are different things entirely. They mean different things and are done for different purposes.

Mr. SMITH: What would sales and marketing together amount to in a percentage less the cash discount which cannot be considered?

Mr. CONNELL: They do not enter into this at all.

Mr. SMITH: What are those together in terms of percentage?

Mr. CONNELL: The answer to this is Appendix 7. I would just like to elaborate on this. We have a sales force which goes around selling our goods, and the cost of this we classify as sales cost, which is 5.5 per cent. Marketing cost, which is the cost of advertising our goods and promoting them in the store, in accordance with appendix 7 is also 5.5 per cent.

However, if you do not mind my saying so, again they are two different things with two different purposes.

Mr. SALTSMAN: Let me put it to you this way: under your marketing cost, would you simply restrict yourselves to selling cost? In evidence before this committee, when we discussed about some restraint on advertising, almost invariably the witnesses said that if one tries to restrain it in this way it only breaks out somewhere else. If you restrict it to advertising, it will show up as posters or as other gimmicks or as something else again. This is why I feel it is very difficult to separate marketing costs from selling costs. They are performing similar—perhaps not identical, but similar—functions. By and large their purpose is to sell products. Will you agree both marketing and selling costs are there for the purpose of selling products?

Mr. CONNELL: No, one is to sell to the trade and the other is to sell to the consumer. These are separate things.

Mr. SALTSMAN: But would you not think that their purpose is basically the same and if that is the case should there be such a large quantity?

Mr. CONNELL: No, I wouldn't think so.

Co-Chairman Senator CROLL: I don't quite follow you, Mr. Connell. The one is for selling to the trade and the other is to sell to the consumer. The ultimate purpose, of course, is to sell to the consumer. Selling to the trade is merely an incident along the way of getting it to the consumer. The cost ultimately winds up with the consumer.

Mr. CONNELL: Perfectly true.

Co-Chairman Senator CROLL: What Mr. Saltsman is saying is that both of them, the cost of getting it to the retailer and the cost of getting it to the consumer, are related to promoting and selling.

Mr. CONNELL: I appreciate that. But we should be quite clear that the selling cost as such is an item of expenditure aimed at putting the goods in the store and the other half is aimed at getting the goods out of the store to the consumer.

Mr. SALTSMAN: I am willing to accept that definition, but in broad terms it is really the selling cost on the whole item. It is the cost incurred in selling your product. Do you feel that this saves the consumer money, or does it change the picture or increase the cost to the consumer—I mean spending this percentage of your gross for this purpose?

Mr. CONNELL: It is important to remember that in business in Canada today one must carry out both of these essential marketing purposes. Inevitably that cost is going to affect the consumer.

Mr. SALTSMAN: I can appreciate that if you are going to have to compete with other people, which you seem to have done pretty successfully, you are going to have to do some promotional spending. But supposing some restriction were placed on the amount a company could expend on selling costs, and that this did not apply to just one company but applied all round, what effect would this have?

Mr. CONNELL: It would depend on the restriction. It would depend what form the restriction took. If it were a large enough reduction it could bring a reduction of, say, one per cent in the retail price. I am afraid I cannot answer any better than that, because this is a hypothetical question.

Mr. SALTSMAN: Yes, but this is a very important point. It is one we have been trying to get at in this committee. You will excuse my oversimplification of the situation. I realize you have to look at the total selling costs because a restriction on advertising or posters does not mean very much since you can make it up by having more salesmen, for example.

Mr. CONNELL: I couldn't agree with that.

Mr. SALTSMAN: Or you can take other media. It is difficult to get at, but it is very important from the consumer's point of view to understand this. If we can reduce selling costs, can we reduce the price to the consumer?

Mr. CONNELL: Theoretically, yes. Whether in actual terms it would mean a reduction of even one cent would have to be worked out.

Mr. SALTSMAN: One more question; this concerns private brands versus national brands. It seems there is a bit of what for want of a better word I would call a power struggle going on between manufacturers on the one hand and retailers on the other hand and their share of, let us say, market sales. For instance, you have indicated today that no retailer can dictate to you. You determine the policy of your company.

Mr. CONNELL: Right.

Mr. SALTSMAN: I presume you are able to do this because of the amount of money you devote towards establishing your brand name and your position in the market and therefore you have to some extent pre-sold your products to the consumer which puts the retailer in the position of having to stock your product. I think there is some evidence before the committee to this effect—that the retailer has to stock it whether he wants it or not. This gives you a stronger marketing position than if you were making private brands.

Mr. CONNELL: This could be the case, yes.

Mr. SALTSMAN: The retailer seems to be interested in developing private brands as a way of strengthening his hands in the marketing process. This is

what I mean by a bit of a struggle. Could this have any bearing on your decision? I am speaking of your decision not to get involved in private brands for retailers.

Mr. CONNELL: It could, I suppose. It would inevitably bear upon our consideration of every aspect of the subject.

Mr. SALTSMAN: That there is this struggle for market shares?

Co-Chairman Senator CROLL: Mr. Basford.

Co-Chairman Mr. BASFORD: I would like to take you through the process of introducing a new product to the market and how you get it onto the retailer's shelf. I think one of the products you have here is a soup mix which is a fairly new one for your company. How do you get that into Safeway and Dominion Stores and IGA?

Mr. CONNELL: Where do you want to start? We have the product and we decide to market it.

Co-Chairman Mr. BASFORD: You decide you want to bring out a new soup mix. Now, I presume that your salesmen does not go to the local manager of just one Dominion store and say "We have a good new soup mix."

Mr. CONNELL: The development of any product arises from a market need. When we discover the market need we put a lot of work in on research and package design, etc. It is researched to the point where you know you have something the consumer actually wants. The trade is familiar with this and is probably a party to the development of this product. Eventually it comes to the point where you will launch this onto the market, getting it to the trade and then to the consumer so that he can sample it and come back and complete the marketing cycle by buying it a second time. For any new product we begin first by getting the product into the store, and we might do this by making an introductory offer so as to make it attractive to the trade. We might use, for example, a return label deal whereby we offer an opportunity to the housewife to sample the new product at no cost because she gets her money back by sending in the label to us. Then if she likes it she will go back and buy it a second time.

Co-Chairman Mr. BASFORD: Doesn't your product have to go before a purchasing committee?

Mr. CONNELL: In many cases this is the case, yes.

Co-Chairman Mr. BASFORD: What is your pitch to the purchasing committee?

Mr. CONNELL: The pitch is usually a market rundown, an indication of where this need exists as we see it, and some rundown on the research which gave rise to the indication of this need and an idea of the advertising support we will give to this product immediately it is launched. There will be a rundown on the consumer promotional deals, and the additional incentive of such an introductory offer. That is a fairly large package deal involved in introducing the product.

Co-Chairman Mr. BASFORD: Would cash discounts, co-operative advertising and display positions be negotiated with that committee?

Mr. CONNELL: No, these are cash deductions from price. Perhaps I will touch on that again for a second. Cash discount is a payment for cash received within a prescribed period, so that is an automatic thing which we shove aside because a chain will automatically pay its bills by machine on a certain date, so we do not talk about that. The sort of thing we would talk about would be the introductory bonus for this new product. We need that as a special incentive to get this thing in, because we genuinely believe it is going to come in and stay in. This introductory bonus would be the sort of thing which would enable them

to make an extra profit or pass it on in the form of reduced price to the consumer, or do with what they will.

Co-Chairman Mr. BASFORD: This would be subject to negotiation?

Mr. CONNELL: The actual amount would not be subject to negotiation; it would be fixed; and no one salesman in the Heinz Company has authority to change that—it is a fixed amount, and there is no argument about it. If the trade do not like it, it is too bad; we do not get in.

Co-Chairman Mr. BASFORD: I am talking about your merchandising vice-president meeting with the committee.

Mr. CONNELL: There is no question of the merchandising vice-president or anybody else giving a special deal not freely available to everybody else at the same time.

Co-Chairman Mr. BASFORD: So you would not make a different deal with, say, Dominion stores from one you might make with, say, Loblaw's?

Mr. CONNELL: Not unless a quantity thing was involved, which, again, would be freely available to everyone. The answer is: No, we would not.

Co-Chairman Mr. BASFORD: How do you determine whether your products go on the top shelf, at eye level, and Campbell's on the bottom shelf, or vice versa?

Mr. CONNELL: Vice versa, I am afraid! I suppose this comes back to the point of: What is your comparative brand share? What does your product merit in the store? Is it a market leader? If it is, it would generally get better treatment than the next which is the second or third brand. There is nothing underhanded, and no question of us buying space in a store—not a chance, not under any circumstances.

Co-Chairman Mr. BASFORD: Except you can buy aisle displays, can you not?

Mr. CONNELL: We are talking about special promotions, where you do not buy space in a store. A much more important thing is shelf space.

Co-Chairman Mr. BASFORD: Are you saying your salesmen cannot influence the amount of shelf space you have?

Mr. CONNELL: No, the salesman is always trying to get a better shelf display for his product all the time. This is one of his basic operating objectives, to get the best sort of shelf display that he can from the trade.

Co-Chairman Mr. BASFORD: What are the tools that he uses to do that?

Mr. CONNELL: Gentle persuasion and logic—logic being market share, turnover and so forth. These stores are pretty well laid out in advance. If this product is turning over at that rate, there is no question of somebody else coming along and trying to get a better position for a minor brand.

Co-Chairman Mr. BASFORD: Regarding this new product of soup mixes, why would the allowance be so high?

Mr. CONNELL: Because this is not a very fast selling product. We are not really in this market to any great extent, and we feel it is necessary to have some sort of price advantage in order to get any sort of sale at all with it.

Co-Chairman Mr. BASFORD: Why are you in it at all—

Mr. CONNELL: That is a very good question.

Co-Chairman Mr. BASFORD: —if you have researched so carefully to indicate it was?

Mr. CONNELL: There is a normal cyclical life for a product. It develops and expends itself; and I suspect that one is pretty well expended.

Co-Chairman Senator CROLL: How long has it been on the market?

Mr. CONNELL: Not very long—four years. This was a fashion not so many years ago, this packet soup deal, but today it is not.

Co-Chairman Mr. BASFORD: What sort of rates do you pay for display space in the stores?

Mr. CONNELL: This is a detail with which I am not too familiar.

Mr. NELLES: I cannot really answer that because there is no uniformity. We would probably pay a different rate to a different chain, depending on the number of outlets they had and the number of aisles they were going to make available to us, and so on. This rate is by no means standard. We could furnish you with some typical figures at a later date, but I do not have the information with me.

Co-Chairman Mr. BASFORD: I would like those figures, please. Is this open to negotiation?

Mr. NELLES: In most cases the chains themselves establish the prices they charge for this sort of display, and we buy or not buy, as we see fit.

Co-Chairman Mr. BASFORD: I have just one other question on a different line. What was the impact of television on your advertising budget?

Mr. CONNELL: Well, that is a general question, and I can only give you a general answer, I am afraid. I suppose the initial impact of television was very high. I suspect it is not so high today as it used to be. It is a very expensive but more effective medium. In other words, you are talking about repetition as opposed to impact. That is a very difficult question to answer.

Co-Chairman Mr. BASFORD: I am wondering what happened to your advertising costs as a percentage of sales as a result of television.

Mr. CONNELL: It is in Appendix 7. Commercial advertising has been in Canada right through this period. We have been pretty well at the same level of advertising since 1960: 2.8 in 1960; 3.1 per cent today.

Co-Chairman Mr. BASFORD: We have had commercial television since before then.

Mr. CONNELL: Yes. We would have to go back a few years beyond that to answer your question effectively.

Co-Chairman Mr. BASFORD: You do not have anyone with you who could give that general answer?

Mr. CONNELL: No, we could not go back beyond 1960.

Co-Chairman Mr. BASFORD: I know you yourself have been here only eight weeks, but your colleagues have been here longer.

Mr. CONNELL: It is a question of what information we have, and we positively have no advertising information beyond 1960. We can let you have this though.

Co-Chairman Mr. BASFORD: Thank you.

Co-Chairman Senator CROLL: What did it cost you, approximately, to put that product, soup mixes, on the market in dollars—ten, fifteen, twenty, thirty, forty thousand dollars, initially?

Mr. CONNELL: I just would not know. It could cost us almost anything. It depends how much you are going to put into advertising; it depends how much you are going to put into promoting. You might decide you are going to have a three-year break-even point. You will not make any money on the first two years, and your break-even will come on the third year, and you might devote the whole of your budget to getting the product launched and in building up demand for the coming years. What exactly the figures are, without getting into sales and launching costs, and so forth, I could not answer. It is purely a hypothetical thing.

Co-Chairman Senator CROLL: It is a real figure.

Mr. CONNELL: Yes.

Co-Chairman Senator CROLL: We have had some pretty high figures, and you say you would not know about that. Surely, when you launch a product somebody says, "What is this going to cost us?"

Mr. CONNELL: We know in specific terms what this product cost us.

Co-Chairman Senator CROLL: I asked you what the cost in getting it launched was.

Mr. CONNELL: We do not know, but we can find out and let you know.

Mr. URIE: In that connection, it might be of interest to note that in the United States survey in relation to the introduction of 14 new brands of cold cereals, in the first year—and this is during the period from 1957 to 1961—in the first year advertising expense as a per cent of sales was 47 per cent, and the second year 22 per cent; and in the third year, 21 per cent. Is that the sort of pattern you have in mind?

Mr. CONNELL: Yes; but I would say that is high.

Co-Chairman Mr. BASFORD: Breakfast cereals, Yogi Bear costs money.

Mr. URIE: I was interested in the pattern rather than percentage.

Mr. CONNELL: The break-even might come in the third year.

Senator INMAN: Mr. Chairman, I have one question, and that is with regard to the deal allowance. I believe that Mr. Connell said that with every ten cases of baby food you might give away one case.

Mr. CONNELL: Yes.

Senator INMAN: You must give away a lot of cases in a year, because 10 cases do not go very far. I know from experience, and I have seen in my own family perhaps two dozen cans bought at a time—and we do not have glass in Prince Edward Island. Does it add to the cost a lot?

Mr. CONNELL: It does add to the cost; it is a portion of the total cost.

Senator INMAN: Is it necessary for you to do that? Is it made necessary by competition?

Mr. CONNELL: This is not a haphazard thing. It is a carefully arranged thing. We know all the elements of cost. We know the price at which we can sell the product. We know the sort of profit figure we can live with at the end of the line, and so on.

Mr. SMITH: Does that include some of the free pieces that you pass on to the consumer?

Mr. CONNELL: Yes, certainly.

Senator IRVINE: And it is passed on?

Mr. CONNELL: Yes, it is passed on in the form of price reduction, and so on.

Mr. ALLMAND: I want to pursue further the question of private brands versus the national brands. When the supermarkets were here they said that the adoption of private store brands was a relatively recent thing, and that they intended to go in for it more and more. In fact, one of the stores from the Maritimes said that they had not been into it too much, but they were considering going into it more. The figures they gave us, compared with those of some of your products, show that their brands sell quite a bit cheaper than the national brands.

Mr. CONNELL: Yes.

Mr. ALLMAND: And this probably due to the advertising and promotion, I would think.

Mr. CONNELL: No, sir, I do not accept that.

Mr. ALLMAND: What do you think it is due to?

Mr. CONNELL: I do not know, but I do not accept that.

Mr. ALLMAND: Heinz ketchup, 15 ounces, sells for 37 cents, and one store—I will not mention its name—sells it for 31 cents, or 6 cents less. White vinegar, 128 ounces, Heinz sells for 83 cents, and the supermarket sells theirs for 73 cents. There is a 10-cent difference there. This goes all the way down the line. I could give you many other examples. What do you think is the reason for this difference. You say it is not advertising.

Mr. CONNELL: I do not think advertising on its own would account for that differential. These are facts that can easily be established, but I cannot give you the facts. What does a store pay net for a private brand from a processor, and what price does it pay for the branded products? Are they being sold at the same mark-up? What is the retail mark-up? The facts are there.

Mr. ALLMAND: Of course, we did ask these people, and we will analyze these statistics.

Mr. CONNELL: The statistics will give you the answer, but I do not know the answer.

Mr. ALLMAND: It does appear that your advertising costs are very much higher than the supermarkets' advertising costs.

Mr. CONNELL: Yes.

Mr. ALLMAND: If they continue to go into private brands more and more, and even into baby foods, how would you intend to meet this competition. You said earlier that if you raise your price a slight amount when there is no increase in costs your competitor would move right in there and take a large part of the market away from you. If a supermarket can develop its own private brands, and sell them at a considerable price difference as compared to your brands, then it would seem that sooner or later the consumer is going to learn about that and buy that store's products. How do you intend to meet that competition?

Mr. CONNELL: Assuming all things are equal as to quality and everything else, and there is a substantial price differential between the two identical products, then obviously the guy selling the most expensive product is going to go out of business.

Mr. ALLMAND: Do you think name brands shelter under your advertising in a sense, in that they let you advertise ketchup and bring up consumer demand, and then sell it cheaper having taken some advantage of your advertising?

Mr. CONNELL: I suppose you could say that.

Co-Chairman Senator CROLL: Well, can you say it?

Mr. CONNELL: I think that if the branded people build the market for ketchup, it could be said that to that extent your statement is true. May I make one point? It has been said that this business of private brands is something new. It is not new at all. People have been selling private labels for the last thirty or forty years. Co-operatives have been introducing their own brands of all sorts of products in different countries of the world, and they are still selling them today, without too much success. It is not new.

Mr. ALLMAND: I have one final question, Mr. Connell. Do you sell much of your produce on the export market? Does Heinz of Canada sell abroad?

Mr. CONNELL: Yes, but we do not sell an awful lot.

Mr. ALLMAND: To what countries?

Mr. CONNELL: Just a minute. We will look that up and come back to it.

Mr. ALLMAND: Is the export demand increasing, and would this have any effect on prices? One of the witnesses has indicated to us that the demand around the world for food is increasing at a great rate, and that this is affecting

food prices. He was speculating to a certain extent; he had no figures to give us. I am wondering whether your export demand is increasing, and whether it affects price.

Mr. CONNELL: Our export demand is increasing in volume, but the export business, so far as the Heinz Company is concerned, is not significant enough to affect any price at all.

Senator MCGRAND: In Appendix 5 you give the average hourly paid labour rates from 1949 to 1966. A great many people are convinced that increases in wages do not contribute to the increased cost of food. What is your opinion on that?

Mr. CONNELL: Well, in the cost of food to the consumer labour is an element of cost, and sometimes I feel there is a sort of emotional thing about food prices. People tend to get the thing a little out of proportion and out of perspective. Nevertheless, I feel that this is probably a factor.

Senator MCGRAND: What is the factor?

Mr. CONNELL: I do not know.

Co-Chairman Senator CROLL: You are saying that the increase is a factor, or is the factor?

Senator MCGRAND: Well, starting in 1949 the figure was $0.91 per hour, and in 1966 it is $2.42 per hour. Does that increased cost of wages contribute to the increased cost of food?

Mr. CONNELL: Without a doubt. Indeed, let us go back to baby food—

Senator MCGRAND: Many people challenge that.

Mr. CONNELL: It is part of the cost of making food. If you go back to the beginning of our presentation, to the heading of "Direct Labour" on page 2, I would point out that there is an element of wage volume in there as well as an element of wage price.

Co-Chairman Mr. BASFORD: What is the total bill for 1949 as compared to 1966?

Mr. CONNELL: In dollars?

Co-Chairman Mr. BASFORD: Yes.

Mr. NELLES: The statement says that wages and salaries in 1960 amounted to 16.7 per cent of our sales dollar. In 1965 they are 18.7 per cent of our sales dollar.

Mr. JOYAL: An increase of 12.5 per cent?

Co-Chairman Mr. BASFORD: You do not have that in dollars?

Mr. CONNELL: We gave someone the dollar figure on that.

Co-Chairman Senator CROLL: He gave it to you, did he not, Mr. Urie?

Mr. URIE: Yes.

Co-Chairman Senator CROLL: Will you give it to us. It is not on the record yet.

Mr. URIE: I will give you the figures of gross sales, and that can be calculated. In 1960 they were $46,000,000; in 1961, $50,000,000; in 1962, $53,000,000; in 1963, $55,000,000; in 1964, $59,000,000; and in 1965, $61,000,000. The percentages are all shown for each of those years.

Co-Chairman Senator CROLL: Yes. Are you satisfied with that?

Co-Chairman Mr. BASFORD: Yes.

Co-Chairman Senator CROLL: Have you finished your questions, Senator McGrand?

Senator MCGRAND: Yes, Mr. Chairman.

Mr. McCutcheon: Mr. Connell, speaking again of baby food in tins and glass, do your tin containers have the same volume content as the glass containers?

Mr. Connell: Precisely.

Mr. McCutcheon: They are exactly the same?

Mr. Connell: Yes, and the cost comparison shown on page 2 is for identical quantities of the same baby food packed in jars and tins.

Mr. McCutcheon: You mentioned in your evidence earlier that there was no standardization legislation covering glass containers. Was this a factor in your decision to change to glass? In other words, you would probably enjoy more flexibility in your pricing formula?

Mr. Connell: No, sir, this was not a factor at all—not even a remote one.

Mr. McCutcheon: It was not?

Mr. Connell: No. If I got your question correctly, you asked me whether the decision to change to glass so far as baby food was concerned was made because it would enable us to have flexibility in pricing. You asked if this was a factor. The answer is no.

Mr. McCutcheon: Would this not be a factor in your long term view of this situation?

Mr. Connell: No, we changed from tins to glass because we had already identified the need for a $4\frac{3}{4}$ ounce jar of baby food for an early baby, and there was a need to change. Then, there was no desire to change, and no advantage in changing, to anything else.

Mr. McCutcheon: And the tin container, $4\frac{3}{4}$ ounces under glass is just the same?

Mr. Connell: Exactly.

Mr. McCutcheon: You mentioned older babies.

Mr. Connell: The tinned junior foods were also $4\frac{3}{4}$ ounces, but we felt at the time of the change to glass from more advanced research, that an older baby would be better with the 8-ounce jar.

Mr. McCutcheon: But the tins remain the same?

Mr. Connell: The tin is the same.

Mr. McCutcheon: So there is a difference?

Mr. Connell: I am sorry, I do not know that I follow you.

Mr. McCutcheon: There is a difference in the content between—

Mr. Connell: Between tinned junior foods in the Maritimes and Western Canada and glass junior foods sold in Quebec and Ontario. We use a different size.

Mr. McCutcheon: The glass junior foods in Ontario and Quebec are more expensive?

Mr. Connell: More expensive than the $4\frac{3}{4}$ ounces and less expensive tins.

Co-Chairman Senator Croll: You have my co-chairman very angry. He will think that the people of British Columbia cannot afford what the people in Ontario and Quebec can afford. Senator O'Leary?

Senator O'Leary (*Antigonish-Guysborough*): Mr. Connell, I presume that you are well aware that many restaurants and some hotels use your Heinz ketchup containers on the table and displayed with another company's ketchup, do you complain about this sort of thing?

Mr. Connell: We resent this.

Senator O'Leary (*Antigonish-Guysborough*): You do not feel you are getting any free advertising?

Mr. CONNELL: We feel that it would be much more effective if we were exclusive.

Senator O'LEARY (*Antigonish-Guysborough*): Do you attempt to check this out occasionally? Do you do any spot checks?

Mr. CONNELL: Oh, yes. Our people are always going around checking.

Senator O'LEARY (*Antigonish-Guysborough*): If you find it actually happens in the case of restaurants and hotels, would you take any action?

Mr. CONNELL: Yes, we would try to persuade them to do otherwise.

Co-Chairman Senator CROLL: The statistic that I have here comes from an eminent home economist. It says, a six-month old baby using home prepared diet, approximately $1.49 per week. Using canned foods exclusively, approximately $7 per week—two small people. Would you like to make some comment?

Mr. CONNELL: You said $7 per week for two children?

Co-Chairman Senator CROLL: Using two children all the time, six months old.

Mr. CONNELL: For fifty-two weeks a year, I make that $364 for two children, which works out at $182 per child, which is twice what we consider to be per capita consumption per child. So I would say that is twice as high as we would expect it to be.

Co-Chairman Senator CROLL: That is the $7?

Mr. CONNELL: Yes.

Co-Chairman Senator CROLL: It was as high as you would expect it to be?

Mr. CONNELL: Yes.

Co-Chairman Senator CROLL: On page 2 there was a re-emphasis under "Costs heading" that packaging was $.0154, that it was by far the largest item. That is correct, is it not?

Mr. CONNELL: It indicates the additional cost per jar.

Co-Chairman Senator CROLL: By far the largest item?

Mr. CONNELL: Yes.

Co-Chairman Senator CROLL: Then on page 4, again we come to packaging?

Mr. CONNELL: Yes.

Co-Chairman Senator CROLL: And that is still by far the largest item?

Mr. CONNELL: For a different reason. One is because of the changeover from tin to glass, the additional cost of the jar; and the second one on page 4 is increase in the actual packaging cost which occurred since the date of introduction.

Co-Chairman Senator CROLL: The ingredient was of no consequence?

Mr. CONNELL: No.

Co-Chairman Senator CROLL: And the labour would not be overly important, is that correct?

Mr. CONNELL: It was important, but not overly.

Co-Chairman Senator CROLL: Then we come to page 5, and we find overhead. What would that be?

Mr. CONNELL: This was total factory overhead and everything associated with the manufacturing outside direct labour.

Co-Chairman Senator CROLL: Then we come to Appendix 8, which is a cost and price analysis of tomato juice, and there again packaging is by far the largest item?

Mr. CONNELL: Yes.

Co-Chairman Senator CROLL: That is not baby food we are asking about, that is tomato juice.

Mr. CONNELL: That is canned tomato juice.

Co-Chairman Senator CROLL: The various kinds we were discussing?

Mr. CONNELL: Yes.

Co-Chairman Senator CROLL: That is the item again.

Mr. CONNELL: Yes.

Co-Chairman Senator CROLL: Now, somewhere in here you made a reference to freight as an item of importance. Do you recall that?

Mr. CONNELL: I referred to the additional cost of shipping glass packed baby foods to the Maritimes and also Western Canada because of the long distances involved, that is an important factor.

Co-Chairman Mr. BASFORD: Does your company have institutional sales to hospitals and penitentiaries?

Mr. CONNELL: Yes, we do.

Co-Chairman Mr. BASFORD: Is the price list for them different?

Mr. CONNELL: Institutional sales are different sizes. Generally speaking we sell our regular items to institutions but also have special sizes included on that regular price list which are really exclusive for that class of trade.

Co-Chairman Mr. BASFORD: Tomato juice, 105 ounces, is that an institutional price?

Mr. CONNELL: Yes, indeed.

Co-Chairman Mr. BASFORD: Is it different in price?

Mr. CONNELL: No.

Co-Chairman Mr. BASFORD: Is it as sold to the trade?

Mr. CONNELL: No, it is the regular price. It is freely available to anyone who wishes to buy it.

Co-Chairman Mr. BASFORD: What I am getting at is that there are special prices for institutional sales because they are in special packages?

Mr. CONNELL: That is right. They are not special prices.

Co-Chairman Mr. BASFORD: But special packages.

Mr. CONNELL: Yes. They want large packs, which the rest of the trade does not, at a price which is special for the institutional trade.

Co-Chairman Mr. BASFORD: But there is not on the same item a different price for the trade?

Mr. CONNELL: No, there is not.

Co-Chairman Senator CROLL: Mr. Urie, in the guideline that was laid down, the first thing required was comparative financial statements for the period 1960 to 1965 inclusive, showing gross sales, margins, costs of raw materials purchased, salaries and wages, operating and selling expenses and net profit. Are you satisfied that we have that information?

Mr. URIE: Yes.

Co-Chairman Senator CROLL: The second one: Show quotations at f.o.b. plant sales prices per unit of some of the principal products offered during selected weekly periods in 1965 and 1966. Are you satisfied?

Mr. URIE: Mr. Connell is giving us separate information on that. There is certain other information with respect to co-operative advertising.

Mr. NELLES: You wish to know from whom and how much?

Mr. URIE: During the course of my examination I asked you for information concerning details of co-operative advertising.

Mr. CONNELL: Yes, we will deal with that.

Co-Chairman Senator CROLL: Well what about the second item: Show quotations at f.o.b. plant sales prices per unit of some of the principal products offered during selected weekly periods in 1965 and 1966. Are you satisfied with that? I did not hear much information about that.

Mr. CONNELL: We did not think that applied to our company, and therefore we did not have anything on that.

Co-Chairman Senator CROLL: Perhaps it does not apply. Has anyone further questions? If not, I want to say to you, Mr. Connell, how much we appreciate your coming here. For an immigrant you didn't do badly at all. As a matter of fact, it is immigrants like you who helped to build this country to what it is, and we thank you for that.

We need some more information, which we shall appreciate your getting to us as soon as possible.

Whereupon the committee adjourned.

Appendix 1

Joint Committee on Consumer Prices

Suggested Topics for Discussion With

Fruit and Vegetable Canners

1. Comparative financial statements for the period 1960-1965 inclusive showing gross sales, margins, cost of raw materials purchased, salaries and wages, operating and selling expenses and net profit.

2. Show separately annual advertising expenses and their relationship to gross sales for the six-year period. Detail principal charges made to this account.

3. Show per-ton laid-down cost at plant of some of the principal fruits and vegetables purchased annually by years for the period.

4. Show the cost of containers and other packaging materials for the past six years and show their percentage relationship to gross sales.

5. Do you agree with the multiplicity of sizes of containers of certain food commodities which appear on the retail market today and, in your opinion, what level of marketing is responsible for new sizes?

6. How do you determine that your sales prices are competitive?

7. Generally, when pricing products for sale, do you employ fixed or percentage mark-ups or are the laws of supply and demand invoked?

8. What is your sales policy respecting specialty items involving premiums, certificates redeemable by the consumer, cents-off deals, etc.?

9. Show quotations at f.o.b. plant sales prices per unit of some of the principal products offered during selected weekly periods in 1965 and 1966.

10. When volume sales orders are invoiced, is the billing net of all discounts or gross less discounts?

11. Does your firm pack for wholesalers' or retailers' 'private' label? If so, what volume percentage of some selected items were packed in this manner in comparable periods in 1965 and 1966.

12. Where applicable, detail the various manufacturing costs involved in processing an average ton of tomatoes into the resultant pack of tomato juice.

13. Select ten major commodities manufactured by your firm and allocate production, warehousing and sales costs such as containers and packaging materials, raw materials, wages, advertising, direct and co-operative, etc. to each.

(*Appendix 3 follows*)

Appendix 3

Fruits and Vegetables — Cost Per Ton Delivered

	1960	1961	1962	1963	1964	1965	Estimate 1966
Fruits							
Apples	$ 104.00	$ 80.00	$ 104.00	$ 102.00	$ 92.00	$ 120.00	$ 96.00
Peaches	106.00	92.00	104.00	102.00	110.00	124.00	124.00
Pears	138.00	142.00	142.00	180.00	158.00	144.00	144.00
Vegetables							
Tomatoes	39.21	39.64	39.09	38.98	38.78	42.21	47.62
Cucumbers	72.00	68.00	70.00	68.00	74.00	74.00	80.00
Pea Beans	146.00	150.00	158.00	162.00	164.00	180.00	202.00
Carrots	34.00	44.00	38.00	34.00	34.00	38.00	38.00
Potatoes	58.00	42.00	46.00	46.00	74.00	92.00	66.00

Appendix 4

Packaging Materials — Price Trends

		1960	1961	1962	1963	1964	1965	1966
Baby Food Tins & Lids	per 1000	$19.28	$19.15	$19.09	$18.98	$19.68	$19.89	$20.18
Vinegar Jugs	each	.17	.18	.18	.19	.19	.19	.19
Pickle Caps 12 oz.	per 1000	—	12.08	12.01	12.03	12.04	12.52	12.52
Baby Food Cases	per 1000	40.61	39.37	39.66	40.65	40.69	40.94	41.93
Baby Food Labels	per 1000	1.62	1.67	1.62	1.53	1.62	1.70	1.74
Ketchup Glass 11 oz.	per doz.	.36	.38	.39	.39	.39	.39	.41
10 oz. Tins	per 1000	20.61	21.17	21.18	20.80	20.36	21.02	21.30
20 oz. Litho Tins	per 1000	—	38.78	39.02	38.52	37.80	39.36	40.21
Total Packaging on % Gross Sales		24.4	24.8	23.6	22.8	23.9	25.0	—

Appendix 5

Average Hourly Paid Labour Rates

1949	$ .91	1958	$1.77
1950	.98	1959	1.85
1951	1.14	1960	1.89
1952	1.24	1961	1.94
1953	1.26	1962	2.02
1954	1.34	1963	2.07
1955	1.42	1964	2.10
1956	1.50	1965	2.24
1957	1.64	1966	2.42

Appendix 6

Analysis of Corporate Profit

	1960	1961	1962	1963	1964	1965
	%	%	%	%	%	%
Gross Sales	100	100	100	100	100	100
Cash Discounts						
Volume Incentive						
Cooperative Advertising						
Deal Allowances	6.1	6.0	7.2	5.1	5.6	6.4
Net Sales	93.9	94.0	92.8	94.9	94.4	93.6
Ingredient Material						
Packaging Material	47.7	48.1	47.2	46.7	47.6	48.2
Wages						
Salaries	16.7	16.2	15.7	16.3	16.5	18.7
Freight						
Factory Operations						
Warehouse Operations						
Selling Operations						
Marketing Operations						
All Others	22.0	20.7	21.4	21.7	20.6	22.3
Income Tax	3.9	4.8	4.3	5.3	5.0	2.4
Profit	3.6	4.2	4.2	4.9	4.7	2.0

Appendix 7

Analyses of Marketing Cost

	1960	1961	1962	1963	1964	1965
	%	%	%	%	%	%
Gross Sales	100	100	100	100	100	100
Advertising						
Magazines						
Roto						
Newspapers						
Radio						
Television	2.8	3.2	3.2	3.2	2.9	3.1
Merchandising and Promotion						
Direct Mail						
Store Material						
Samples						
Redemptions						
All others	3.2	2.6	3.1	2.6	2.4	2.4
Total Marketing	6.0	5.8	6.3	5.8	5.3	5.5

Appendix 8

Cost & Price Analysis — Tomato Juice

Gross Sales	100%
Cash Discounts	2.0
Cooperative Advertising	1.8
Deals and Allowances	6.9
	10.7
Net Sales	89.3
Ingredient	19.7
Packaging	34.3
Labour	12.1
Factory & Warehouse Operations	7.7
Freight	5.0
Selling	1.7
Advertising	1.0
Other Wages & Salaries	4.3
Other Costs	2.5
Income Tax	.5
Profit	.5

Appendix 9

Cost Analysis of 10 Typical Heinz Varieties

	A	B	C	D	E	F	G	H	I	J
Sales Allowances										
Cash Discount	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Co-op	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Deals, Allowance & Volume Incentive	1.1	3.1	6.4	2.9	4.1	3.1	4.7	6.0	14.5	2.3
Manufacturing										
Ingredients	14.7	27.4	29.8	10.0	17.8	25.0	29.7	41.7	26.4	10.7
Packaging	32.3	22.1	19.6	37.6	26.4	24.5	21.3	15.7	17.7	33.6
Direct Labour	3.9	1.3	2.0	1.9	2.6	2.0	4.0	3.2	4.0	3.4
Factory Overhead	8.3	8.7	13.1	11.4	14.4	15.0	10.2	9.6	9.0	11.0
Warehousing	3.2	3.1	2.6	7.4	3.2	3.8	3.2	1.6	.9	2.9
Freight	5.0	3.1	5.2	7.4	3.0	3.4	2.7	2.9	1.7	5.6
Selling Expense	8.9	1.9	3.0	2.8	2.9	3.1	4.6	6.9	6.5	8.7
Marketing	6.2	6.0	7.5	2.6	7.0	5.6	6.4	.2	2.8	4.9
Administration	7.0	7.3	5.9	7.2	7.2	7.1	7.6	7.2	7.3	7.3
Income Tax	3.2	6.6	.8	2.9	4.2	2.1	1.2	.9	3.1	3.3
Net Profit	2.9	6.1	.8	2.6	3.9	2.0	1.1	.8	2.8	3.0
Gross Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

—Upon resuming at 3 p.m.

Co-Chairman Senator CROLL: I see a quorum. We have before the committee Gerber Products of Canada Ltd. On my left is Mr. C. G. Smith, Vice-President and General Manager and he will introduce the other people who are here with him.

Mr. C. G. Smith, Vice-President and General Manager, Gerber Products of Canada Ltd.: Thank you, Senator Croll. Ladies and gentlemen, I would like to introduce my associates. On my left is Mr. A. S. Peacey, Secretary Treasurer; Mr. J. J. Merrett, Manufacturing Manager; Mr. A. Theobalds, General Merchandising Manager, and Mr. R. T. Holman, Sales Manager.

I would start by making two apologies. We finished this brief over the weekend. The facilities in Niagara Falls did not enable us to get a translation into French.

According to the telegram we received on Thursday, we were to have advance copies, but we could not complete the advance copies because, as I said, we completed this brief only over the weekend, so the copies are available only today.

(1) INTRODUCTION

Our company is glad to cooperate with this Special Joint Committee of the Senate and the House of Commons on Consumer Credit inquiry into the trends in the cost of living in Canada and the factors which have contributed to the changes in the cost of living in recent years. We at Gerber make every effort to supply our customers with the highest quality baby food products at reasonable costs, even during this period of increasing costs. The following notes and data are presented in accordance with suggestions from the committee, but we have taken the liberty of adding some materials and commentary which we think might be helpful.

We have intentionally made our presentation brief and to the point of this inquiry and have omitted excess verbiage and a lengthy discussion of our various activities, feeling that the committee was generally aware of the type of business and were more interested in the clear facts of our business.

(2) DESCRIPTION OF BUSINESS

Gerber Products of Canada, Ltd. is a manufacturer and merchandiser of baby food products. As our slogan indicates—"Babies are our business—our only business", all of our research, production and merchandising efforts are directed entirely at the baby food business, we do not manufacture any other products.

Our products are produced for the convenience of our consumers. The products are all pre-cooked, ready to serve. These are all produced using the very best ingredients with the highest nutritional standards.

Our range of products falls into eight basic categories. These are strained foods, junior foods, meat dinners, meats, juices, egg yolks, cereals and teething biscuits. Each category provides nutritional needs, variety and familiarization of new foods and textures for the infant's growth. We attempt to furnish the mother with a carefully produced product of the highest standards to meet the baby's requirements from the first few weeks of life to the time when he or she can accept adult foods.

Our share in the market at the moment is approximately 35 per cent.

In each of these product lines we have the following numbers of varieties. A wide selection is important to provide the baby with the necessary nutritional and variety experience desired:

Strained Foods	48	Varieties
Junior Foods	30	"
Junior Meat Dinners	7	"
Juices	7	"
Strained Meat Dinners	7	"
Strained Meats	6	"
Junior Meats	6	"
Cereal	6	"
Egg Yolks	1	Variety
Teething Biscuits	1	"

As you can see from this list we are, at present, producing 119 varieties at our production facilities located at Niagara Falls.

Our present marketing area encompasses Ontario and Quebec. Until 1961 we marketed nationally, but as costs increased and in an effort to concentrate our efforts in the more populated areas and keep our costs and prices down we withdrew from the Maritime provinces in 1961 and from western Canada in 1963. This enabled us to concentrate our efforts in just these two provinces and we have realized continuing growth in these areas.

(3) MATERIAL PURCHASING

All fruits and vegetables used in our various products are purchased from primary producers either under a growing contract or at harvest time. Meats, flours, and other ingredients necessary for the production of our various items are purchased on a bid basis from suppliers. All ingredient materials are required to meet rigid specifications and are carefully inspected by our quality control section on delivery. We do not, at any time, compromise on the high standards for our products for a reduced price. The prices of raw materials, and fruits and vegetables, have increased in the past several years. The members of this committee are probably well aware of the method of establishing prices for fruits and vegetables as established to provincial marketing boards, and listed below are the prices paid for similar grades of selected fruits for the period 1961 through 1966, delivered and unloaded at our plant:

Item	Fiscal Year	Year	Comparative Index
Peaches	1961	$105.50	100%
	1962	90.00	85.3
	1963	100.77	55.5
	1964	101.74	96.4
	1965	106.76	101.2
	1966	121.12	114.8
Pears	1961	$102.50	100%
	1962	90.60	88.4
	1963	100.17	97.7
	1964	102.04	99.6
	1965	87.83	85.7
	1966	117.82	114.9
Carrots	1961	$ 40.00	100%
	1962	37.40	93.5
	1963	40.95	102.4
	1964	35.74	89.4
	1965	34.35	85.9
	1966	44.32	110.8

(4) CONTAINERS

All of our products are produced in glass except juices, cereals, and teething biscuits. Gerber baby foods were in tin until January 1962 when glass was introduced into Canada. This conversion from tin to glass was made due to consumer demand and has been sucessful because of consumer acceptance.

Up to this point our brand share in the Eastern market was not showing a desirable trend. Our customer research in Canada and industry experience in other market areas indicated to us the consumer's desire for a more convenient package. This prompted a major decision for a substantial capital investment, a complete change in containers, a complete retraining of our labour force. Our future as a baby food manufacturer in Canada depended on the success of this one critical decision.

I would just like to draw your attention to the percentage of the previous year, under 1961, which was 90.7 per cent, and this indicated our trend at that particular time. Then I would draw your attention to the column on the right, where we called 1961 100 per cent and in the calendar year for 1965 we were at 152.7 per cent of 1961. So the trend was in the right direction.

The chart below, based on units, illustrates the acceptance by the consumer and the vindication of the decision:

Calendar Year	Percent of Previous Year	Percent of 1961
1961	90.7	100
1962	107.7	107.7
1963	111.1	119.7
1964	118.0	141.3
1965	108.1	152.7

(5) GENERAL MARKETING PATTERN

Our products are shipped from our plant warehouse directly to the customer warehouse.

(6) PRICE HISTORY

The price history of Strained baby foods, our major line, for the past six calendar years is as follows: (These figures are based on net to the customers and are those supplied monthly to the Dominion Bureau of Statistics.)

Year	Containers	Net Price Delivered Customer, Carload Quantities, Cases of 24 x $4\frac{3}{4}$ oz.
1961	Tin	$2.1312
1962	Glass	$2.5152
1963	Glass	$2.5186
1964	Glass	$2.5186
1965	Glass	$2.4672
1966	Glass	$2.6304

Now, from 1962, the first year of glass, right up to the price of today, there has been an increase of 4.5 per cent.

(7) PRICE POLICY

All of our products are sold on a delivered basis with the same prices in all areas. All individual items in a product line such as strained foods or junior foods are at the same price.

Cash Discount—We offer a 2 per cent cash discount on all orders paid within 10 days of date of invoice. This has proven to be very beneficial to us during the past years of operation.

To pass on the economies in freight rates, handling, and invoicing effected by large volume shipments we offer a per cent truckload incentive allowance.

Volume allowance—Due to the above and a competitive situation, we offer to our customers the opportunity to earn an additional 1 per cent allowance based on a minimum annual volume.

(8) ADVERTISING

We conduct an advertising program in the region in which we are marketing our products. Several media are used including magazines, newspapers, radio, etc. We believe that consistent advertising directed to consumers is a necessity in our business because of our constantly changing customers. We are losing completely satisfied customers every day because of their reaching an age where baby foods are not a necessary part of their daily diet. We must get our message to the new customer that is entering the market for our products every day. Our advertising program is directed to the mother and is primarily of the informational type discussing nutrition and other facts of value to the mother for feeding her baby. Our annual advertising expenses will be covered in a later exhibit (Exhibit A) and will show a downward trend in relation to total sales dollars during the period being considered. Over the period under study our media advertising was reduced from 7.4 per cent to 5.5 per cent of the net sales dollars.

(9) OTHER ADVERTISING

We participate in other types of programs with the trade and with the mothers to stimulate the sales of our products. We have a co-operative advertising allowance with the trade of up to 3 per cent on purchases—paid on proof of performance. This provides for special store merchandising programs.

In addition to this we have mail and hospital programs directed to new mothers, Doctors and clinics. This would include such things as information service to mothers and Doctors, Hospital Kits which acquaint the mother with our products, clinical booklets as an aid to bringing up baby, information on nutrition, special products, and other similar information. These are additional programs designed to bring our message to our ever changing customers. This program cost 2.5 per cent of our net sales last year.

(10) PREMIUMS

Our attitude and policy respecting specialty items involving premiums has been requested. We have occasionally offered premiums such as baby spoons, and other similar items which are self liquidating premiums. These are supplied to the consumer at our cost.

(11) CONTAINER SIZES

Standard sizes are established under fruit and vegetable regulations or have been standardized in the industry.

Our container sizes are as follows:

Strained food, strained and junior meat dinners, and
Strained juices are all 4-3/4 oz.
Junior foods are 8 oz.
Strained and junior meats are in 3-1/2 oz.
Cereals are in 8 and 16 oz. packages.
Junior juice is in a 6 oz. tin container.

(12) FINANCIAL STATEMENTS

Comparative summaries of operations for fiscal year 1961 through 1966 are included here as Exhibit A. Our fiscal year ends on March 31st.

(13) COST OF SALES

An expansion of the cost of sales figure in Exhibit A. and a summary of salaries, wages and employee benefits costs by fiscal years is appended as Exhibit B.

(14) PRODUCT LINE COSTS

A breakdown of ten major commodities showing the allocation of costs, and expenses relative to selling price is shown as Exhibit C.

(15) PRODUCE

Marketing Board for Produce from 1958 to 1966 is shown as Exhibit D.

Most of Exhibit A is self-explanatory. I would like to make three or four comments, though. The first line is net sales rather than gross sales. All our reports are based on net sales. This is the reason for our having done it this way. If it is desirable to have gross sales, we can have this computed and then supply it to you. You can advise me on that later.

Under Gross Margin you will notice that this has fluctuated from 40.9 in 1961 to 34.9 in 1966. Media Advertising, which is the third line under Expenses, shows that the figure has fluctuated from 7.4 in 1961 to 5.5 in the last fiscal year. The total of Transportation & Warehousing is down from 6.3 in 1961, and 6.8 in 1962, to 4.6 in 1966. This is due to various efficiencies which actually decreased the cost percentage of sales. In the last line under Containers you will notice it went from 22.8 in 1961 to 30.3 in 1962 and 29.0 in 1966.

In the next exhibit which is Cost of Sales is production information cost on products sold at factory cost. You will notice under the fourth line where it says "Other Production Expense" which includes depreciation, maintenance of equipment, etc., it went from 183 in 1961 to 365 in 1966. This is about double.

On the bottom half of that sheet under Salaries and Wages, the fluctuation is the same or at a lower level. Salaries and wages have increased, and this again illustrates the necessity of volume in our business. The next appendix sets out operating statistics. This is based on dozens. The total operating expenses as well as some of the total costs of sales are shown here. These items are part of our strained line and it is impossible to break off the individual item cost. The last appendix is the record of marketing board prices.

That is our brief.

Co-Chairman Senator CROLL: Mr. Saltsman.

Mr. SALTSMAN: I am very interested in some of the statistics and tables you have given us, because I think these are very meaningful figures for us, and certainly as far as the consumer is concerned. I would like to put this on the record because I think it is fairly important to point out, and I am referring to Exhibit C, that if you look at practically any of the products and look at the ingredient material or direct labour, you will find it is frequently less than the marketing expenses. Would you agree with that conclusion?

Mr. SMITH: Yes.

Mr. SALTSMAN: I would like to compliment you on putting marketing expenses as a meaningful figure there instead of trying to separate it out in other ways. This is what we have to know, the costs of marketing some of these products. I would also like to put on the record the fact that the prices for containers frequently exceed the prices for ingredient materials.

Mr. A. S. Peacey, Secretary Treasurer, Gerber Products of Canada, Ltd.: Yes, but in that situation we are only talking about strained food. As a general rule, we could not agree that that is the case.

Mr. SALTSMAN: What would the exception be?

Mr. PEACEY: Well, in the case of meats, for example. In meats alone the ingredients could cost $1.20 and the container only 30 cents. Not all our items follow this pattern where the ingredient content is lower in cost.

Mr. SALTSMAN: But where you have fruit and vegetables rather than meat, your pattern follows, and where you have higher priced ingredients the pattern changes. But even in those cases the container forms a higher portion of the cost.

Mr. PEACEY: I think these are reflected in the totals on Exhibit A at the bottom.

Mr. SALTSMAN: This would take in the overall picture on Exhibit A, because even on Exhibit A your total marketing expense is 38 per cent, is that correct?

Mr. SMITH: Looking at 1961 it is 38 per cent, but that has been reduced in 1966 to 23.5 per cent, and I think this would be meaningful.

Mr. SALTSMAN: At the time your marketing expenses were 23.5 per cent your ingredient position was 20.6 per cent, so that even on that picture your marketing expenses exceed the ingredient cost.

Mr. SMITH: On the overall picture, yes.

Mr. SALTSMAN: Again the containers in this instance exceed the ingredient cost by almost 30 per cent. The ingredient cost is 20.6 per cent, and the container cost is 29 per cent.

Co-Chairman Senator CROLL: Just a minute. It is awfully hard to get a shake of the head on the record. Just keep saying yes or no—mainly yes.

Mr. SALTSMAN: Your ingredient as a percentage of cost represents about one-fifth of the cost?

Mr. SMITH: Yes.

Mr. SALTSMAN: This would in many cases be the return to the primary producer?

Mr. SMITH: Yes.

Mr. SALTSMAN: I would like to ask some general questions about the way this particular business is conducted. I am talking now about baby food. How much volume is required to stay in business in the baby food industry? What volume do you require? We heard another firm had 80 per cent of the market as against your 20 per cent.

Mr. SMITH: We are 35 per cent of the market in the area in which we operate.

Mr. SALTSMAN: There is only one other competitor?

Mr. SMITH: Yes.

Mr. SALTSMAN: With presumably 65 per cent?

Mr. SMITH: In the area in which we operate, yes.

Mr. SALTSMAN: Because you operate in less than the total area in Canada; the overall percentage in Canada or in the Canadian market would be somewhat different?

Mr. SMITH: Yes.

Mr. SALTSMAN: You operate in Ontario and Quebec?

Mr. SMITH: Yes.

Mr. SALTSMAN: In this regard your share of the total Canadian market would be less than 35 per cent?

Mr. SMITH: Yes, I think the 20 per cent is a very realistic figure when you talk about the whole country.

Mr. SALTSMAN: Could you stay in business on any smaller volume of the Canadian business than what you have now?

Mr. SMITH: Operating as we are, no.

Mr. SALTSMAN: On page 3 where you say that the conversion from tin to glass was made due to consumer demand—how did you interpret this consumer demand? How did your company decide there was a consumer demand since there were no glass jars on the market at that time?

Mr. SMITH: We had the experience of other areas, and we market-tested with the Canadian consumer.

Mr. SALTSMAN: Were representations made to you by consumer organizations or by individual housewives asking you to put food into glass jars?

Mr. SMITH: I would ask Mr. Holman, our General Sales Manager, to answer that.

Mr. R. T. Holman, General Sales Manager, Gerber Products of Canada Ltd.: Yes, we get letters from mothers all the time, and we had a great number of letters coming in from mothers who had been in other parts of North America and had seen the glass jars. This demand is there. We went out on the market and decided to see whether there was a demand in Canada, as the letters indicated.

Mr. SALTSMAN: Did they indicate that they were willing to pay a higher price?

Mr. HOLMAN: When we did our market research we indicated what the price would be approximately, and they indicated it would be a good buy.

Mr. SALTSMAN: Was there any spontaneous approach on the part of consumers for a certain product and an understanding on the part of the consumer that these things would cost her more money, if these products were brought on to the market in this particular form? Did you get any indication of this type from the consumer saying, "Put this on the market, and we will be willing to pay more money if you do it"?

Mr. HOLMAN: Certainly, we did get indications from the mothers they would be willing to pay more money for it.

Mr. SALTSMAN: Would you say this message to you was substantial? How many letters, for example, did you receive?

Mr. SMITH: I do not think this is a fair question, and we would not have a record of the amount of letters. There was a substantial inquiry.

Mr. SALTSMAN: The reason I ask is, continuously we are hearing on the committee that the consumer is demanding certain things, and that this is why the consumer sometimes happens to pay more money, for packaging or sales arrangements or other things. We are trying to isolate to what extent the consumer demands things, and to what extent the people in business decide this is what the consumer is going to have.

Co-Chairman Senator CROLL: Do we not have to find out who went into this business first, and make some headway that way?

Mr. SMITH: How big is the ring in the nose of the consumer? I do not think it is as big as Mr. Saltsman sometimes indicates.

Mr. SALTSMAN: You went into glass first?

Mr. SMITH: No.

Mr. SALTSMAN: Who went into glass first?

Mr. SMITH: Swift.

Mr. SALTSMAN: Then what happened?

Mr. SMITH: Then we went into glass. We were the major factor in the glass.

Mr. SALTSMAN: When Swift went into glass, did they start going into your market appreciably and that forced you to go into glass? We had evidence from other companies they did.

Mr. HOLMAN: Swift's had no history of introducing strained junior foods prior to their introduction in Canada. At the same time we had been getting consumer demands. We knew from the history in other places in North America and throughout the world what would happen, so we hopped quickly to meet the demand that was there.

Co-Chairman Senator CROLL: How much of a head start did Swift have on you?

Mr. HOLMAN: Truthfully, I cannot really remember.

Co-Chairman Senator CROLL: Can you estimate?

Mr. PEACEY: It might have been six months.

Co-Chairman Senator CROLL: Six months head start on all of you?

Mr. PEACEY: I am guessing.

Co-Chairman Senator CROLL: This was a very popular approach to the consumer, was it not?

Mr. SMITH: I think we would have to go back and see what distribution they had in this sort of thing. As indicated again this morning they had rather limited distribution compared to the other two people in the business.

Co-Chairman Senator CROLL: But they were first in the field that was attractive?

Mr. SMITH: Yes.

Co-Chairman Senator CROLL: And they had almost six months head start on the rest of you?

Mr. SMITH: Six months is not very long.

Co-Chairman Senator CROLL: It turns out it is not very long because they went flat on their backs. What was it—the product; or what was it—selling?

Mr. SALTSMAN: When Swift's introduced their food in the glass jars, how did they compare in price with your products on the market at that time?

Mr. HOLMAN: It would be the same comparison ratio of 1961.

Mr. SALTSMAN: Was the price to the consumer the same in the glass jar or in the tin? Was Swift's product in the glass jar being sold on the market at the same price as your product in the tin?

Mr. HOLMAN: No.

Mr. SALTSMAN: It was sold at a higher price?

Mr. HOLMAN: Yes.

Mr. SALTSMAN: How much higher?

Mr. HOLMAN: Three cents a unit, if I remember correctly.

Mr. SALTSMAN: What year did you go into glass?

Mr. SMITH: 1962.

Mr. SALTSMAN: Looking at your financial statement, it indicates a number of years with a substantial loss until you reached—what page was this on?

Senator O'LEARY (*Antigonish-Guysborough*): Page "A".

Mr. SALTSMAN: Yes, on Exhibit "A".

Mr. SMITH: Yes.

Mr. SALTSMAN: Your company was losing money in 1961, 1962, 1963 and 1964; and then you start to show a profit in 1965. What year did your competitor go into glass?

Mr. PEACEY: The summer of 1965.

Mr. SALTSMAN: Whereas there was a time lag of approximately six months between the introduction of glass by Swift's and your introduction of glass,

there is a time lag of almost three years before your competitor went into glass—is this correct?

Mr. SMITH: Yes.

Mr. SALTSMAN: I presume your competitors had the same market research facilities at their disposal, and they could see the trend taking place and the improvement of your market position over these years. Have you any idea why they did not go into glass for three years?

Mr. SMITH: No, I do not.

Mr. SALTSMAN: I presume if you had not gone into glass and had not had those three years in which to improve your market position, you might not be here appearing before the committee today. I mean, you were in rather bad shape previous to this, judging from your financial statement.

Mr. SMITH: That would be indicated.

Mr. SALTSMAN: In those three years you had the pressure with the introduction of glass and went on building up your sales that put you back into a more competitive position in the market.

Mr. SMITH: Yes.

Mr. SALTSMAN: Suppose your opposition had gone into glass at the same time you had gone in, do you feel you could have weathered the storm?

Mr. SMITH: This is very hypothetical.

Co-Chairman Senator CROLL: He does not know.

Mr. SALTSMAN: The reason I ask this question is, it strikes me as rather strange that a firm that was able to take 80 per cent of the market and has all the market research facilities at its disposal and all the costs advantages at its disposal, should wait three years. What I am wondering is whether there has not been some deliberate policy on the part of your opposition to ensure you stay in business—to put it in very blunt terms.

Co-Chairman Senator CROLL: Let us get on.

Mr. SALTSMAN: All right, let us get out of there.

On page 6 you indicate you offer a premium such as a baby spoon. Is this baby spoon attached to the jar?

Mr. SMITH: No, this is a book of coupons that are on the point of sale, and the mother takes one of these coupons off and sends it together with 35 cents to our general offices and she is mailed a spoon.

Mr. SALTSMAN: This would be known as a self-liquidating premium? She would pay the cost as well as send in the coupon? Does she send money along with the coupon to obtain the spoon?

Mr. SMITH: Yes.

Mr. SALTSMAN: On page 6, where you list your sizes—$4\frac{3}{4}$ ounces, 8 ounces, $3\frac{1}{2}$ ounces—are these similar in sizes to those of your competitors?

Mr. SMITH: Yes.

Mr. SALTSMAN: They are exactly the same size?

Mr. SMITH: The $4\frac{3}{4}$ and 8-ounce sizes are established by the fruit and vegetable departments for size and volume.

Mr. SALTSMAN: I think we have been able to indicate that the marketing costs are a substantial cost in the price of this particular commodity. You have indicated your need to continue with marketing operations, and that is very understandable. Certainly you have to maintain your share of the market, and convince the consumer to use your products, just as your competitors have to do all that they can to convince her to use theirs. I would like to put this to you: Does this selling cost that you have indicated not constitute ultimately a cost to the consumer.

Mr. SMITH: All costs are ultimately reflected in the price charged the consumer, or are taken up by way of a lesser profit.

Mr. SALTSMAN: But you can do only with so much lesser profit. You have to make a minimum profit in order to stay in business, so there is a floor below which your profit cannot go, and where this cost must be reflected the other way. It can be taken up in other ways, but at some point it has to be passed on to the consumer in the form of a higher price; is this not correct?

Mr. SMITH: Yes.

Mr. SALTSMAN: If the competition becomes more ferocious then I suppose costs will be added on to a further extent—that is, if the gimmicks become larger and the promotions increase. If your promotional costs as a percentage of your total sales increase they will then have to be borne by the consumer?

Mr. SMITH: If what you state is true, yes.

Co-Chairman Senator CROLL: What did he say that could not be true?

Mr. SALTSMAN: I am putting to you that as promotional costs increase then the costs to the consumer increase. We have been told here that advertising does not cost the consumer anything, and that promotions do not cost the consumer anything.

Co-Chairman Senator CROLL: Not everybody has told us that.

Mr. SALTSMAN: Some have told us that it is not cost-developing.

Mr. URIE: They said it was self-liquidating.

Mr. SALTSMAN: I am inclined to think that that may be true up to a point—that advertising up to a point will help the consumer—but you do reach a point where it is no longer an aid to the consumer and it becomes a direct built-in cost which the consumer must pay, and for which he does not receive much value. Suppose these advertising costs were cut in half for the whole of the industry—suppose advertising and promotional costs were reduced by half—would the consumer suffer as a result? I am assuming that this is done throughout the industry.

Mr. SMITH: Yes, I think she would. Nearly all of our advertising is directed to giving some message on nutrition, hints as to the raising of children, and that type of thing.

Mr. SALTSMAN: How do you get this message across? Do you put it on each jar?

Mr. SMITH: No, no—what was that?

Mr. SALTSMAN: How do you get this message across to the consumer? What is the mechanism used in respect to helping the consumer as you have described through advertising?

Mr. SMITH: Through information in the advertisements.

Co-Chairman Senator CROLL: What sort of advertisements—newspapers, radio—

Mr. SMITH: Yes, newspapers, radio, television, baby booklets and that type of thing.

Mr. SALTSMAN: Those are all the questions I have.

Senator O'LEARY (*Antigonish-Guysborough*): I apologize, Mr. Chairman, for going back to the glass, but I do have a couple of questions with respect to it. Do you recall when you first went into the Maritimes?

Mr. PEACEY: Yes, until 1958 our company was organized differently. It was a jointly owned company known as Gerber-Ogilvy, and we were selling Gerber baby food in the Maritimes in 1950.

Senator O'LEARY (*Antigonish-Guysborough*): What was your experience there from the viewpoint of cost? Did you find it a very high cost operation?

Mr. PEACEY: Yes, we did, and also from the distribution standpoint.

Senator O'LEARY (*Antigonish-Guysborough*): Then, you withdrew from the Maritimes in 1961 when you came out with glass containers?

Mr. PEACEY: Yes, probably just prior to coming out with glass.

Senator O'LEARY (*Antigonish-Guysborough*): Was it near the end of 1961.

Mr. PEACEY: No, we were out by April of 1961.

Senator O'LEARY (*Antigonish-Guysborough*): Was there anything significant over and above the fact that you withdrew from the Maritimes, as you state in your brief in 1961, to keep your costs and prices down? If you were going into glass then I can understand that, but were there any other factors?

Mr. PEACEY: Frankly, we felt that we were losing money on our distribution in that area, and we withdrew to cut our losses.

Senator O'LEARY (*Antigonish-Guysborough*): Did you check to determine whether it was possible for you to increase your volume after you began to use glass entirely?

Mr. PEACEY: I do not think we had seriously considered glass at that time.

Co-Chairman Mr. BASFORD: I take it from what you said that in Western Canada there is only one baby food distributor?

Mr. PEACEY: That is correct.

Co-Chairman Mr. BASFORD: What effect do you think this has had on prices of baby food in Western Canada—the fact that the market is occupied by only one producer.

Mr. SMITH: Honestly, I do not know what the prices are out there.

Co-Chairman Mr. BASFORD: The chain stores have said to us that their sole concern is to supply good quality merchandise at a low price, and I am wondering whether you have received any encouragement from the chain stores not to vacate Western Canada?

Mr. HOLMAN: The chain stores asked us to remain in Western Canada.

Co-Chairman Mr. BASFORD: How did they ask you?

Mr. HOLMAN: They suggested that they would like us to remain.

Co-Chairman Mr. BASFORD: Were they prepared to do anything about you having to stay?

Mr. HOLMAN: Very little difference—

Co-Chairman Mr. BASFORD: I understand that most of the chain stores are represented here this afternoon, but I would like you to speak frankly.

Mr. HOLMAN: The decision was based not so much on what they could do for us, but on whether we could operate at a profit when distribution costs *et cetera* were exorbitant in respect of our operation.

Co-Chairman Mr. BASFORD: Why do you feel that your competitor can operate out there, and you cannot?

Mr. SMITH: He has an adequate share of the market which enables him to operate at a profit, I assume. I have not seen his balance sheet in respect of Western Canada, so I do not really know. This is an assumption.

Co-Chairman Mr. BASFORD: The share of the market that he would obtain would, to a great extent, be dependent on the chain stores, would it not?

Mr. SMITH: I do not think I am really following you, sir.

Co-Chairman Mr. BASFORD: It seems to me—and correct me if I am wrong—that the processors live or die depending on what the chain stores do, because they are the biggest outlet for food items.

Mr. SMITH: Yes.

Co-Chairman Mr. BASFORD: If all the chain stores stopped buying your product, you would be dead.

Mr. SMITH: Yes.

Co-Chairman Mr. BASFORD: You could not live on the independent grocer who wanted to stock Gerber's?

Mr. SMITH: That is true.

Co-Chairman Mr. BASFORD: So, surely, by giving you their market support the chain stores could have kept you in Western Canada, could they not?

Mr. SMITH: There just was not the consumer demand for our product in Western Canada when we were there, operating as we were.

Co-Chairman Mr. BASFORD: How many chain stores were you selling to in Western Canada?

Mr. HOLMAN: We had distribution to all chain stores—all voluntary group stores. We had excellent distribution.

Co-Chairman Mr. BASFORD: Is that true in Ontario and Quebec now?

Mr. HOLMAN: Yes, we are in all stores, practically.

Co-Chairman Mr. BASFORD: I was asking this morning about how producers such as yourselves obtained sales to the chain stores, and how you get your products into the chain stores. Would you like to discuss that for a moment?

Mr. HOLMAN: I am not sure of exactly what aspect of it you want. Once our line is distributed, do you mean to ask how we get a new variety in, or how we got our varieties in in the first place?

Co-Chairman Mr. BASFORD: Both.

Mr. HOLMAN: Let us talk about a new variety. Once we find a need for a new variety, either through consumer research or an intelligent look at the market after researching in respect of that product, we will then come up with a package program that will tell the retail operator of the need for the new item, and what its potential is. Then we pack it together with probably an introductory allowance, which could be passed on to the mother at a more economical price if she wished to try the process, and we present it to the retail operators with the potential bargaining earnings.

Co-Chairman Mr. BASFORD: To whom do you present this at Dominion Stores?

Mr. HOLMAN: We present it to a buyer.

Co-Chairman Mr. BASFORD: Does he make the decision?

Mr. HOLMAN: I am not exactly sure who makes the decision, but we present it to a buyer and he gives us the decision on it.

Co-Chairman Mr. BASFORD: What terms are negotiated when you are making this presentation?

Mr. HOLMAN: We do not negotiate any terms of sale. In fact, when we introduce a product we establish a price and the promotional program with it and we present it to the chain stores, and that is our program. We do not negotiate prices between one and the other.

Co-Chairman Mr. BASFORD: I presumed you would have a list price that you work from, but are elements of package promotion negotiable?

Mr. HOLMAN: No; we treat all customers equally.

Co-Chairman Mr. BASFORD: Supposing all buyers say, no, we are not interested.

Mr. HOLMAN: Then we scratch our heads and come out with another program, and try to find out the reason it is not accepted.

Co-Chairman Mr. BASFORD: Do they tell you why they are not interested?

Mr. HOLMAN: Yes and no, depending on the retailer.

Co-Chairman Mr. BASFORD: Which ones tell you the reasons they are not interested?

Mr. HOLMAN: I really don't remember.

Co-Chairman Mr. BASFORD: What would they tell you, that the rebate to them was not enough or the co-operative advertising was not enough?

Mr. HOLMAN: No, that would not come into the conversation because our rebate program is a standard program for all accounts, and no one account will tell us that he deserves to get more than another. We treat them equally well, which I believe they all notice.

Co-Chairman Mr. BASFORD: Does that apply to co-operative advertising also?

Mr. HOLMAN: Yes. We have quasi co-operative advertising up to 3 per cent for everyone.

Co-Chairman Mr. BASFORD: Up to 3 per cent. How does that work?

Mr. HOLMAN: Not all distributors have package promotion as a vehicle which you can promote in their stores.

Co-Chairman Mr. BASFORD: Those that do, would get 3 per cent, and those that don't would get nothing. What I was getting at is that it is a 3 per cent variable.

Mr. HOLMAN: If they do nothing to sell.

Co-Chairman Mr. BASFORD: How do you obtain your shelf space for this super chain when you are dealing with them?

Mr. SMITH: Proof of performance.

Co-Chairman Mr. BASFORD: Do you have any complaints as to how you are allotted shelf space?

Mr. HOLMAN: As a salesman, I would like to be able to say yes; but, no, I have no real complaints. However, I think it comes down to performance in the market place, and you deserve what your performance is.

Co-Chairman Senator CROLL: Mr. Urie?

Mr. URIE: Mr. Smith, I would like to study your corporate state for a minute. You are a wholly-owned subsidiary of an American company?

Mr. SMITH: At Fremont, Michigan.

Mr. URIE: Do they conduct exactly the same type of business in the United States?

Mr. SMITH: Exactly.

Mr. URIE: Could you give us roughly, at least according to years, your gross sales of your company in the United States?

Mr. PEACEY: They publish consolidated figures of about $190 million. Almost all of that is domestic, but that would include our funds.

Mr. URIE: That includes your sales. What is their net profit for the last few years?

Mr. PEACEY: I do not have it with me. I would be guessing. I think around between 6 and 7 per cent.

Mr. URIE: Six and 7 per cent?

Mr. PEACEY: I believe it is in that neighbourhood.

Mr. URIE: What is your net profit as a percentage of gross sales? You have given us figures on a net sales basis. What do you mean by net sales?

Mr. PEACEY: Net sales are just our billed sales less our cash discount and the other two discounts that Mr. Smith mentioned in his brief, the one per cent truck load allowance and the one per cent volume rebate.

Mr. URIE: To make comparisons a little more readily obtainable, I wonder if you could supply us with your similar figures of gross sales, please.

Mr. PEACEY: We can compute them. We never do keep them that way. Our books are kept in net sales, but we can compute them.

Mr. URIE: Can you do that without great difficulty and expense, because we have no methods of comparison unless they are all on a similar basis?

Mr. PEACEY: We will be glad to do it.

Mr. URIE: This would also require you to reconstitute your percentages for advertising, and so on, a little, and they might vary a little bit.

Mr. PEACEY: It will be an extremely small amount, yes.

Mr. URIE: Because the percentages given us in Appendix A are all as a percentage of net sales.

Mr. PEACEY: Yes, but if you figure your gross sales at about 104 per cent to 105 per cent of that net figure we would be very close.

Mr. URIE: To get into this question of sales, if you turn to exhibit A and look at marketing expense under the items media advertising, co-operative advertising, direct mail promotions, if all of them should be added together, I would take it to make a total for your advertising and promotional expenses, is that right?

Mr. PEACEY: They could be. We were trying to furnish a little additional detail.

Mr. URIE: But I am trying to find out if you added them altogether, would that be your total advertising cost?

Mr. PEACEY: Yes, advertising and promotion.

Mr. URIE: What does the general marketing heading encompass?

Mr. PEACEY: It could have been lumped under administration. That would be your general sales manager and your advertising and promotion manager and their group—their general administrative office for the marketing department.

Mr. URIE: Really that would be another advertising and promotional expense, would it?

Mr. SMITH: No, not any more than the direct force. This is administration of the sales end of our business, general marketing.

Mr. URIE: Would it be fair to say that taking the other three items I spoke of a minute ago, that is, media advertising, co-operative advertising and direct mail, your total advertising and promotional expense would be roughly 10.8 per cent?

Mr. SMITH: The total of those, 10.8 per cent, yes.

Mr. URIE: Now, how do you market your products, by direct sales, or to the retailers, or do you sell to wholesalers and food brokers?

Mr. SMITH: We do not sell to food brokers. We sell to chains and wholesalers.

Mr. URIE: What are the percentages in respect of sales; what percentage would you sell direct and what percentage through wholesalers?

Mr. SMITH: I do not think we have that information available.

Mr. HOLMAN: Approximately 60 per cent chains, and 40 per cent wholesalers.

Mr. URIE: And are the terms of the sale to each the same?

Mr. SMITH: Exactly.

Mr. URIE: I would like you to enlarge a little on the questions Mr. Basford asked you. Do you have any instore demonstrations with your products?

Mr. SMITH: No.

Mr. URIE: You have samples, I presume, and that comes under your direct mail advertising?

Mr. SMITH: That is correct.

Mr. URIE: And coupons?

Mr. SMITH: Yes.

Mr. URIE: Coupons also come under that?

Mr. SMITH: Yes, direct mail.

Mr. URIE: What about the redemption of your coupons, what percentage of redemption do you have?

Mr. PEACEY: What percentage of what is issued?

Mr. URIE: Yes.

Mr. PEACEY: I think this varies with the type of campaign. On some direct mail campaigns, it could run as high as 30 per cent of the mailing data sent out. In others it would be very much lower than that.

Mr. URIE: Does that depend on the area in which they are issued, or does it depend on the time or the nature of the promotion or what?

Mr. SMITH: I wish that we could know.

Mr. URIE: So far as relations with the chain stores are concerned, or in other direct sales, have you ever negotiated with the chains for the purchase there of aisle or end space for your displays, and, if so, on what basis?

Mr. HOLMAN: We negotiate. We have 3 per cent co-operative advertising up to this on, say, chain lines up to $10,000. We have this amount to spend. They have various packages that we can buy. We can negotiate which packages we will buy.

Mr. URIE: You means the chains make offers to you of the opportunities of display in certain areas available to you, which you can either purchase or reject as the case may be.

Mr. HOLMAN: That is correct.

Co-Chairman Mr. BASFORD: What happens if you reject them?

Mr. HOLMAN: We quite often come back with a counter proposal.

Co-Chairman Senator CROLL: That is not negotiating, my friend.

Mr. HOLMAN: Not in negotiating price but in negotiating the type of promotion. They may have a type of promotion which is not applicable to baby food and we might suggest another type of promotion which we think is better and more applicable to baby food.

Mr. URIE: That is negotiation as to the type of advertising. Is there negotiation as to price?

Mr. HOLMAN: No.

Mr. URIE: All they say is, "You pay this much" and you either pay or you do not get it?

Mr. HOLMAN: Could you rephrase that? I do not hear everything.

Mr. URIE: Does the chain store say to you, when you have negotiated the form in which you are going to make the display, when that is the *fait accompli*, does the chain then say to you, "We will give you this on payment of so much," which you may accept or reject.

Mr. HOLMAN: They have the cost for their promotion. This type costs X dollars, and it offers A, B, C, D, E, F.

Mr. URIE: What is A, B, C, D, E F?

Mr. HOLMAN: It may be end displays, window banners, special pricing, or something like that.

Mr. URIE: These are all advertising prices and you can either pay that or you do not take it?

Mr. HOLMAN: That is correct.

Mr. URIE: The initiative is taken by the store and then you can either accept or reject. That is all I am asking you?

Mr. HOLMAN: Yes.

Mr. URIE: If you should be offered opportunities of any one of these promotional devices and you reject the offer, what happens then? Do your goods get on the shelves, even on the standard ordinary shelves, or are you put, as I understand the term is in the industry, on a dry fee?

Mr. HOLMAN: It has never happened to us.

Mr. URIE: Because of the fact that you always agree to purchase the supplies available for promotion?

Mr. HOLMAN: No, we do not always agree. We will come back and suggest other promotions which are more applicable to our type of business and knowing what the previous values were.

Mr. URIE: If they agree to that and then you come down to the question of price, would you say "That is too much, we are not going to take that" and do they cut you off as far as this is concerned?

Mr. HOLMAN: We have never had that.

Mr. SMITH, M.P.: Surely the stores do not have much chance in regard to baby food, do they? It is you or Heinz. They have to sell baby food?

Mr. URIE: Have you ever heard of it happening in other stores?

Mr. HOLMAN: I never have.

Mr. URIE: What about the displays you have in stores? Must you set them up, or do you set them up yourselves, or must the stores set them up for themselves?

Mr. HOLMAN: Depending on the area. Some stores are quite heavily operating under a union. We do not touch those shelves. In most stores we put on these displays and put the product on the shelves.

Mr. URIE: You do not charge those displays of a product through your company, for setting them up?

Mr. HOLMAN: No.

Mr. URIE: Do you have a choice of space they have for your product—eye, under eye level, or both?

Mr. HOLMAN: We hope that our sales force are influencing that choice.

Mr. URIE: Do they attempt to do so?

Mr. HOLMAN: They do.

Mr. URIE: Do they have to make a payment by way of cash or other subsidy in order to achieve that desired result?

Mr. HOLMAN: Never.

Mr. URIE: It is only by performance? There is just one other area I would like to explore, Mr. Chairman. I noticed that you stated, Mr. Smith, that you purchased in respect of fruit and vegetables, under a growing contract or a harvest contract. Do you own any producing farms yourselves?

Mr. SMITH: No, we do not.

Mr. URIE: What is the nature of the growing contracts you have? Are they contracts negotiated from year to year for the entire crop of a single producer, or how do you operate?

Mr. SMITH: No. We would specify tons at the market price. Generally these prices are established.

Mr. URIE: Do you have any form of contract that you enter into with these growers?

Mr. SMITH: Yes.

Mr. URIE: Do you have any with you or would you file one for our edification?

Mr. SMITH: We will file one. We do not have one with us.

Mr. URIE: What about harvest time? That would not be on a formal contract, or would that be negotiated price at the time?

Mr. SMITH: Yes. For example, if we are buying peaches we have a firm contract we sign with the growers, committing them to sell us X quantity and we are committed to sell at X price under X conditions.

Mr. URIE: That is a different type of contract?

Mr. SMITH: Yes.

Mr. URIE: Would you file a copy of that also?

Mr. SMITH: Yes.

Mr. URIE: As regards meats, flours and other ingredients necessary to the production of your products, from whom do you buy those meats, flours and other ingredients?

Mr. MERRETT: The meats we buy generally from licensed packers, those able to meet our specification for the particular variety of meat or other variety of ingredients that we buy.

Mr. URIE: Always from the same packers?

Mr. MERRETT: This is not true.

Mr. URIE: How are those arranged?

Mr. MERRETT: These are by suppliers bids.

Mr. URIE: You call upon a supplier to bid for orders and you take the lowest bid?

Mr. MERRETT: Provided they can supply according to our specifications.

Mr. URIE: Would you know whether any of your suppliers or any suppliers of your parent company have any interest in the capital stock of your parent company, in the United States, which again would reflect itself in the ownership of your company?

Mr. SMITH: We would not have any knowledge of this.

Mr. ALLMAND: As a supplementary, you have been good enough to provide us with a profit and loss statement overing the last period from 1961 to 1966. Could you also provide a balance sheet for that same period of time?

Mr. SMITH: Yes.

Senator CARTER: Most of my questions have been covered but I have two left. In your business, you run out of customers very quickly?

Mr. SMITH: Yes.

Senator CARTER: Just what age group are you providing nutrition for? Is it the first two years, 18 months or what?

Mr. SMITH: About 18 months.

Senator CARTER: These sizes that you have on page 6, how are they arrived at? Is that a result of scientific study?

Mr. SMITH: The sizes?

Senator CARTER: You gave a constituent of one meal, one feeding?

Mr. SMITH: It works out that way, the strained and junior sizes are established by the food and vegetable divisions of the Government. They set those sizes.

Senator CARTER: That would be in regard to the scientific nutritional requirements?

Mr. SMITH: I think they are satisfied with these sizes. This is for a four or five month old baby. This is one feeding. One jar, one feeding.

Senator CARTER: Nobody in the Department of Health has checked that or approved of it, as appropriate feeding for a child? This just happened to be that way? The fruit and vegetable people set the size, is that what I understand? It just happens to work out all right?

Mr. SMITH: I really don't know, senator, what the background is. Four and three quarter ounces happens to be the tin size. How that was established many years ago I really do not know.

Senator CARTER: I have only one other question about your total marketing expenses. Would that vary very much in different types of products which you produce? I mean, can you, for example, market junior meats or junior foods in eight ounces, is it easier to market that than to market your strained foods? Or do you have any breakdown of that at all? Your figures here are overall figures, I take it, for the whole operation.

What I am trying to find out is if there is any relationship between your product and the total marketing expense.

Mr. SMITH: We could not break that down.

Senator CARTER: There is no way of knowing?

Mr. SMITH: No. It is all handled by the same person.

Co-Chairman Senator CROLL: On that note, then, what is the latest product that you have marketed?

Mr. SMITH: The latest one we have introduced is mixed cereal with bananas.

Co-Chairman Senator CROLL: Mixed cereal with bananas. Is that strained or what? How old is the child for whom it is intended?

Mr. SMITH: This is a cereal mixed with formula.

Co-Chairman Senator CROLL: For a baby of what age?

Mr. SMITH: A baby of about six months.

Co-Chairman Senator CROLL: When did you put it on the market?

Mr. SMITH: September.

Co-Chairman Senator CROLL: This September?

Mr. SMITH: Yes.

Co-Chairman Senator CROLL: Just now, you mean?

Mr. SMITH: Yes.

Co-Chairman Senator CROLL: Then, tell us—

Mr. SMITH, M.P.: Tell us why.

Co-Chairman Senator CROLL: All right, Mr. Smith has the question. Tell us why you put it on the market. To start with, perhaps you should give us your research or whatever you prefer. Why did you put it on the market? After all, you cannot talk to babies and they cannot talk to you any more than they can talk to me. Why did you put it on the market?

Mr. A. Theobalds, General Merchandising Manager, Gerber Products of Canada Ltd.: Again, it was a product researched among a panel of mothers.

Mr. SMITH, M.P.: Here or in the United States?

Mr. THEOBALDS: Here, and it was discovered that there was a need for this product on the market. The mothers would buy it.

Mr. SMITH, M.P.: Did one of your competitors have a similar product on the market? Or do any of your competitors?

Mr. SMITH: One of our competitors introduced a similar product shortly before we introduced ours in Canada.

Co-Chairman Senator CROLL: You are talking about Heinz, are you?

Mr. SMITH: No, I am talking about Meade Johnson.

Co-Chairman Senator CROLL: I thought there were only three companies in business and only two were left now. Am I mistaken?

Mr. SMITH, M.P.: This product you are speaking of is a dry product.

Mr. SMITH: Yes.

Mr. SMITH, M.P.: It is banana-flavoured pablum?

Mr. SMITH: No, sir. It is not banana-flavoured pablum.

Co-Chairman Senator CROLL: Then what is it?

Mr. SMITH: It is Gerber mixed cereal with banana.

Co-Chairman Senator CROLL: That is what I thought we were talking about. All right. The competition there is with Heinz and Swift. Is there somebody else?

Mr. SMITH: Pablum is a marketer of cereals, baby cereals, in Canada.

Mr. SMITH, M.P.: Dry baby cereals, generally, senator. Even with my white hair I am still a little closer to the problem than you are.

Co-Chairman Senator CROLL: The dry problem.

At any rate, we will get on with this. Now, you said this was researched and you finally decided upon it. I have taken a quick look at your financial summary of operations. Have you a research expense in here some place?

Mr. SMITH: Not in product development. This is done by the parent company.

Co-Chairman Senator CROLL: That is what Mr. Smith asked you, and you said no. The first question was whether it was done here or done in the United States.

Mr. SMITH, M.P.: Perhaps, Mr. Chairman, that is a little unfair. Perhaps the witness misunderstood me. He was referring to market research, but I was also leading to the actual physical research that goes into the production of the product. You say that that was done in the United States.

Mr. SMITH: The product development was done in the United States, yes.

Co-Chairman Senator CROLL: And the research was done in the United States.

Mr. SMITH: The product research was done in the United States, yes.

Co-Chairman Senator CROLL: Then what did it cost you to finally put this product on the market in September and October? What will it cost you to finally get this product on the shelf and get it moving?

Mr. THEOBALDS: Are you speaking of advertising promotion?

Co-Chairman Senator CROLL: Everything necessary to get the package to the baby's mouth via the chain store or any other store.

Mr. THEOBALDS: This would be a very difficult question to answer, because you would have to go back to the research, of course, and I am not familiar

with the research development in that the parent company is doing the research on this item. Then there would be a small research charge for researching this among the panel of mothers in Canada; then there would be the cost of packaging the product, of advertising and promoting the product, of introducing the product to the customers and chains, and there would be the further cost of the distribution of the sales force.

I have not got those figures, I am afraid. However, we can get them and work this out for you.

Co-Chairman Senator CROLL: Well, would $25,000 be too high a figure?

Mr. THEOBALDS: I have no way of knowing, sir.

Co-Chairman Senator CROLL: Well, surely—

Mr. SMITH, M.P.: Does the American parent company make a charge against the Canadian subsidiary for its research facilities over and above any dividends payable on the investments? Do you have a royalty payment or anything like that to your American parent company, as do so many of the companies that we have heard from?

Mr. SMITH: We pay for management; we pay a fee for all the engineering research that the parent company does in developing equipment, packaging and this sort of thing; we pay for product improvement and product development and all this type of research. We have administrative costs also. In all we pay them an annual fee of $25,000.

Mr. SMITH, M.P.: Is that arbitrary or is it based on your sales or is it a percentage of the whole North American sales of Gerber's?

Mr. SMITH: This is a set fee.

Mr. SMITH, M.P.: It is a fixed fee of $25,000 and it may or may not have relation to the value that the Canadian company gets from the parent company? I say it may or may not.

Mr. SMITH: That is right.

Co-Chairman Senator CROLL: Well, now we are getting down to it. You have $25,000 a year going over there for research. You have additional costs. Surely you would be able to make up a figure to indicate to us what the cost was to lay this product down on the shelf. All we want is a reasonable figure.

Mr. SMITH: Senator, are you talking about cost, excessive cost over what our margin is going to be on that product?

Co-Chairman Senator CROLL: It has nothing to do with your margins. What is it going to cost you in the way of advertising promotion, research and anything else you have to do in order to get that product on the shelf?

Mr. THEOBALDS: This would be a very difficult figure to arrive at spontaneously, senator. We could get the information for you, though, I am sure.

Co-Chairman Senator CROLL: All right, I will take it unspontaneously. Fine. You get that information. I think the next question comes from Senator O'Leary. No, wait until I give Mr. McCutcheon a chance. He has been kind of quiet today.

Mr. MCCUTCHEON: I shall be extremely brief. Glass is going up 4 per cent on the 1st December, so we were told this morning.

Mr. SMITH: I did not know this.

Mr. MCCUTCHEON: Well, I've got news for you. Back in the rough days for your company, during that period of time, the consumers in this country had an opportunity to buy baby food in tins from others and in glass from your company.

Mr. SMITH: That is correct.

Mr. MCCUTCHEON: Is this not correct?

Mr. SMITH: That is correct.

Mr. McCUTCHEON: Now everybody has gone over to glass. I am old enough to realize that it was apparently a fallacy in the old days to assume that the world would beat a path to your door, if you built a better mousetrap, or a better product; but are you people telling us that glass is the secret of your success? I find this very difficult to accept. The product was good; why could it not have been merchandised in tins? Around our house there is much less waste in emptying a tin can than there is in getting the food out of a glass bottle.

Am I correct in taking away from this the assumption that the secret of success in this matter is glass?

Mr. SMITH: I think this is the main factor.

Mr. McCUTCHEON: Well, I have nothing further.

Co-Chairman Senator CROLL: What you are saying to us in effect is that a first class product—and you have a first class product, I assume—depends for its sale on the market on the way you present it and the form in which you present it?

Mr. SMITH: I don't think that is true. I think you've got to have the first class quality product to start with.

Co-Chairman Senator CROLL: Yes?

Mr. SMITH: And then I think the packaging becomes important. I think in fact what I said was that this was an important factor, but you have to assume first that the quality of the product was excellent to start with. If you have two equal quality products, then I think the packaging process is very important.

Co-Chairman Senator CROLL: Packaging and marketing?

Mr. SMITH: Yes.

Co-Chairman Senator CROLL: Well, is it to this factor you attribute the fact that you have not got a larger percentage of the market, that you have been out-advertised—you have got a good product, a first class product I am told—

Mr. SMITH: I think our figures would indicate that we are making some progress in the marketplace.

Co-Chairman Senator CROLL: The figures you gave us are nothing to go screaming about.

Mr. SMITH: I could not agree with you more.

Co-Chairman Senator CROLL: Senator Inman.

Senator INMAN: I am interested to know who put the idea of these glass containers into the consumer's mind. I very well remember when it was never even thought of. I remember people saying "Baby foods in glass, now!" Who introduced it first, your company, the Gerber people?

Mr. SMITH: No. This was first introduced in the United States, and I think that Beech-Nut was the first one in glass in the United States.

Senator INMAN: I remember when Gerber food was sold in the drug store.

Mr. SMITH: Yes.

Senator INMAN: Why was it discontinued there? You cannot buy it now. I am, of course, from the Maritimes and Senator O'Leary asked one question the answer to which answered one which I was going to ask. I presume freight was higher to bring it down.

Mr. SMITH: Freight and method of distribution—all these things entered into our withdrawal.

Senator INMAN: Well, glass does make it more expensive?

Mr. SMITH: Yes.

Co-Chairman Senator CROLL: Senator O'Leary.

Senator O'LEARY (*Antigonish-Guysborough*): Mr. Smith, on page 3, these prices you quote for materials are, I believe, as you have indicated, your laid-down costs?

Mr. SMITH: Yes, Senator.

Senator O'LEARY (*Antigonish-Guysborough*): Then Exhibit D where you classify the recording to grades, these are the marketing board's prices?

Mr. SMITH: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): Taking pears as an example, in the year 1965 we noted the price of Bartlett pears No. 1 was $130 and so right down to grade No. 2 Kieffer pears at $40. Now you paid $87.83. This price of $87.83 that you paid would be the price for the coming year. Would this be a contracted price, and if so how far in advance?

Mr. SMITH: It would be just slightly prior to harvest time.

Senator O'LEARY (*Antigonish-Guysborough*): Now in the preparation and processing of your baby foods what tolerance do you use percentagewise in grades? Let us take pears for example—in other words, what percentage of each of these qualities would you use in a can of baby food?

Mr. SMITH: I must first say that the quality is the same, and the only thing that varies is the size. The quality is the same, No. 2 is as good quality as No. 1, but it differs in size.

Senator O'LEARY (*Antigonish-Guysborough*): The quality of No. 2 Bartlett pears is the same as quality No. 1?

Mr. SMITH: Except for size.

Senator O'LEARY (*Antigonish-Guysborough*): And the same would apply to Kieffer?

Mr. SMITH: That is correct.

Senator O'LEARY (*Antigonish-Guysborough*): All right, then, what percentage of Bartlett or Kieffer pears would you use or would this vary?

Mr. SMITH: This would vary slightly. Our strained pack is Bartlett and is so labelled, and it would be 100 per cent Bartlett pears. Others would vary.

Senator O'LEARY (*Antigonish-Guysborough*): Others could have a combination?

Mr. MERRETT: I am not sure that I follow your question, senator.

Senator O'LEARY (*Antigonish-Guysborough*): Mr. Smith said your strained food would be labelled Bartlett Pears.

Mr. MERRETT: Correct.

Senator O'LEARY (*Antigonish-Guysborough*): And other foods not strained?

Mr. MERRETT: Strained and junior foods and straight pear varieties are labelled Bartlett Pears, and these are packed using 100 per cent Bartlett pears. We have other items such as pear-pineapple also produced in the strained and junior line. They would be for the most part Kieffer's, but there could also be part Bartlett in this product.

Senator O'LEARY (*Antigonish-Guysborough*): And that percentage would vary from time to time?

Mr. MERRETT: That is correct, sir.

Mr. SMITH, M.P.: I have three or four questions related to what Senator Inman was asking. In the United States who are your opposition or your competitors? There are Heinz, Gerber's, and you mentioned Beech-Nut. Who else?

Mr. SMITH: These are the three major baby food people.

Mr. SMITH, M.P.: Could you tell us what was the sequence to the introduction of glass containers in the United States in your company as compared to that in Canada?

Mr. SMITH: In the United States Beech-Nut introduced glass.

Mr. SMITH, M.P.: About when, have you any idea?

Mr. SMITH: I don't remember.

Mr. SMITH, M.P.: The year is not relevant, but I would like to know the sequence.

Mr. SMITH: We were a national company, and the company east of the Mississippi went to glass and the company west of the Mississippi resisted glass for quite some time. The percentage of our business west of the Mississippi River showed a decline in trend and we converted to glass nationally too.

Mr. SMITH, M.P.: What about Heinz? Did they have the same pattern?

Mr. SMITH: I don't know about that.

Mr. SMITH, M.P.: How far were you behind your American parent in introducing glass into Canada?

Mr. SMITH: Many, many years.

Mr. SMITH, M.P.: Do you know whether Heinz were far behind their parents?

Mr. SMITH: Yes, I am sure it was glass in the United States for quite some considerable length of time.

Mr. SMITH, M.P.: I am wondering why Heinz, which is a very large company, was so far behind Gerber's in turning to glass in Canada.

Mr. SMITH: I don't know.

Co-Chairman Senator CROLL: There is something which I find rather confusing here. If this was such a good thing for Gerber's in the United States, and if they were doing so well and they were charging $25,000 a year for research facilities and all this information was available, what were they waiting for? This I cannot understand. This was good business in the States; they were doing well as a result of using glass: what were you people waiting for?

Mr. SMITH, M.P.: Do you suppose the profits are proportionately higher on canned than on the glass?

Co-Chairman Senator CROLL: Do you remember the figures we got this morning? It was said the glass cost a cent more and the customer paid two cents more.

Mr. JOYAL: No, it cost them two cents more.

Mr. SMITH, M.P.: It cost two cents more, and the profit was one cent. Would that be the reason they were dragging their feet so long?

Mr. SMITH: I think we would have to go back into the history and take a look at other figures before we could make a sound judgment on that.

Co-Chairman Mr. BASFORD: On page 4, it appears your price, after you went into glass, remained, for all practical purposes, the same in 1962, 1963 and 1964. In fact, the figures for 1963 and 1964 were precisely the same. Then they went down in 1965 very slightly. Why?

Mr. SMITH: In 1965, before this reduction, before our competitor introduced glass, we had three or four price ranges depending on quantities purchased; and our competitor, at our lowest cost, at our greatest volume cost, they set their price in that area, so we made an adjustment down to a comparable range of prices.

Co-Chairman Mr. BASFORD: Now they have gone up from 2.46 to 2.63. Why?

Mr. SMITH: Why have the prices gone up?

Co-Chairman Mr. BASFORD: Yes.

Mr. SMITH: Well, I think our financial statement indicates why we raised our price. We perhaps should have raised the price in 1964 instead of waiting until 1966, but looking at the increased costs that we had had over the period, we felt that an increase was warranted.

Co-Chairman Mr. BASFORD: Your price, generally over that period, has gone up 4.5 per cent, you say?

Mr. SMITH: I think that is what it computes to.

Co-Chairman Mr. BASFORD: That is over a five-year period. What happened to the retail price then?

Mr. SMITH: I do not really know. Do you know what happened in five years to the retail price?

Mr. HOLMAN: It has really fluctuated up and down. I could not give you the figure of what happened five years ago, nor today, because this varied from market to market and retailer to retailer.

Co-Chairman Mr. BASFORD: We know the consumer price index has gone up very materially, and it has gone up at a far faster rate than 4.5 per cent.

Mr. SMITH: Yes, we heard that discussed, sir, and I really do not have the answer.

Co-Chairman Mr. BASFORD: I do not quite understand why neither Mr. Heinz nor Mr. Gerber knew too much of what happened to their retail prices because, surely, this to some extent governs how much material is bought?

Mr. SMITH: Certainly, I think we would know some of the prices today, but there has really been no reason for us to record the prices through the years.

Co-Chairman Mr. BASFORD: I am not in the processing business, but it seems to me there are several very good reasons: one, to take advantage of competitive situations; and one, surely, this affects the ultimate or total sales, in the end—what your retail price is? We have seen, I think, a 20 per cent increase in the consumer price index relative to infant foods over the last year. Yet your price over five years has only gone up $4\frac{1}{2}$ per cent.

Mr. SMITH: I really do not know what is in that, but there could be a possibility that all junior products and a large segment of the business, a certain percentage were $4\frac{3}{4}$ ounces at a price. If it is based on units, junior now is 8-ounce containers, which would be considerably more expensive.

Co-Chairman Mr. BASFORD: No, that would be adjusted, I think.

Mr. SMITH: Then, I do not have any idea.

Co-Chairman Mr. BASFORD: Just a couple of other questions. I think I must be reading this the wrong way, but Appendix "C" indicates to me that you are selling those ten products—is it?—and losing money on all but two of them?

Mr. SMITH: This was in the last fiscal year before the price increase.

Co-Chairman Mr. BASFORD: So I am reading that statement correctly?

Mr. SMITH: Yes, you are.

Co-Chairman Mr. BASFORD: This is a selected ten products. Is that representative of your 119, or whatever it is?

Mr. SMITH: These are the top ten items in the strained line. These were selected as being the top ten and were not picked out for any particular reason.

Co-Chairman Mr. BASFORD: So out of the ten top lines, you are selling at a loss on eight of them for that year?

Mr. SMITH: That is correct.

Co-Chairman Mr. BASFORD: That is very generous of you. Have you any information on the degree of contamination that takes place in supermarkets with baby food in glass jars, with mothers opening them and sticking their finger in to taste them?

Mr. SMITH: I do not think we have had any information. I do not really know what type of information you mean.

Co-Chairman Mr. BASFORD: Well, have you found this reported to you as an experience that happens?

Mr. SMITH: We have heard this, yes.

Co-Chairman Mr. BASFORD: To what extent does this occur?

Mr. SMITH: I really do not think this is any factor today. I think it might have had some slight doing early in the introduction, but I think today this is not done.

Co-Chairman Mr. BASFORD: You would not think it is therefore worth while developing a tamper-proof lid?

Mr. SMITH: I did not say that.

Co-Chairman Mr. BASFORD: I was putting words in your mouth, but if you thought it was not a problem, there would not be much point in developing such a lid?

Mr. SMITH: As we have told other groups, there is an effort being made to develop such a container, such a lid. We have told other government agencies.

Co-Chairman Mr. BASFORD: This would be to avoid this problem?

Mr. SMITH: Yes, it would be partially that.

Co-Chairman Mr. BASFORD: Where do you buy your glass from?

Mr. SMITH: Where do we buy our glass from?

Co-Chairman Mr. BASFORD: Yes.

Mr. SMITH: We buy our glass from Dominion and Iroquois.

Co-Chairman Mr. BASFORD: What is the price differential between glass in Canada and the United States?

Mr. SMITH: We would not have that information.

Co-Chairman Mr. BASFORD: You have never tried to buy glass in the United States?

Mr. PEACY: We cannot import it profitably, that I know. We did have to at one time import during a strike situation, and it was considerably more expensive to import it.

Co-Chairman Mr. BASFORD: Why was it more expensive, because of transportation, or tariffs, or what?

Mr. MERRETT: The increase in cost was due to the compounding of many cost factors. The exchange on U.S. funds and the rate of duty were the principal reasons that made it impracticable from the economic standpoint to buy from the United States.

Co-Chairman Mr. BASFORD: Off hand, do you know what the rate of duty is, or how the tariffs are applied?

Mr. MERRETT: Off the top of my head, I believe the rate of duty is 20 per cent. This is strictly recollection; I am not really positive of this, sir.

Co-Chairman Mr. BASFORD: Could you tell me if without the tariff it would be economically worth while to import glass?

Mr. MERRETT: As I recall, yes, it would. Again, it is pure recollection that this is true.

Senator CARTER: I would like to go back to your exhibit A. In 1961-62—you introduced the glass in 1962, you say?

Mr. SMITH: Yes.

Senator CARTER: How far along in 1962—half way along?

Mr. SMITH: January.

Senator CARTER: At the beginning?

Mr. SMITH: Yes.

Senator CARTER: In 1961 and 1962 your net sales were practically the same—so there was hardly any difference.

Mr. SMITH: Yes.

Senator CARTER: And the cost of your sales went up about $200, but in 1963 you take a terrible jump. You sold $650 more than the year before, and it cost $704 to do it. What was responsible for that big jump in the cost of your sales in 1963?

Mr. PEACEY: I think in both the latter part of 1962 and in 1963—particularly in 1963—there are costs in there relative to our withdrawing from Western Canada. We made the decision to withdraw, and did so during 1963. In 1962 there would be some costs relative to the completion of the conversion from tin to glass, but those are perhaps both extraordinary years influenced by the changeover to the new container.

Senator CARTER: You withdrew from the Maritimes in 1962?

Mr. PEACEY: In 1961.

Senator CARTER: I see. That would not be a cost of sales, if you were withdrawing from the market. How can you figure that as a cost of sales if it is a cost of withdrawing from selling? You are giving up sales. It seems to me it should come under some other heading.

Mr. SMITH: I think in our bookkeeping system this is where we put it, Senator.

Senator CARTER: You are keeping your marketing areas limited to Ontario and Quebec. Are you keeping statistics as to the increase in population—infant births, and so forth?

Mr. SMITH: We are keeping statistics on the decrease in population in Canada.

Senator CARTER: The decrease?

Mr. SMITH: Yes.

Senator CARTER: In the age group you are supplying?

Mr. SMITH: The birth rate is down substantially.

Senator CARTER: So your total market is declining?

Mr. SMITH: It is shrinking, that is correct.

Co-Chairman Senator CROLL: That, I assure you, is not a permanent situation. While we are on this I might say that I have heard some talk of this, and I have looked for statistics but I have not been able to put my hands on them. What has been the decline in the birthrate as a percentage?

Mr. HOLMAN: It was practically 7.4 per cent last year over the previous year, and this year it is running a little higher.

Co-Chairman Senator CROLL: A little higher than what?

Mr. HOLMAN: Higher than the 7.4 per cent for the decline last year over the previous year.

Co-Chairman Senator CROLL: Take it back to 1961.

Mr. HOLMAN: I have those figures, but I cannot remember them.

Senator CARTER: What I was trying to develop is whether you are holding your own. Assuming the birthrate was expanding at the normal rate I was wondering if your sales were making headway against those of your competition, or whether you were just holding your share of an expanding market. But, you are doing better than that, if your market is declining as you say.

Co-Chairman Senator CROLL: Of course, when you say they are doing a little better I would point out that their products are different. Once upon a time it was all for babies of six months, but now you are catering to babies of 18 months, are you not?

Mr. SMITH: Up to that age, yes.

Co-Chairman Senator CROLL: So you are expanding the market with other products.

Mr. SMITH: We are trying to expand the feeding period.

Co-Chairman Senator CROLL: And succeeding to a degree?

Mr. SMITH: Yes.

Co-Chairman Senator CROLL: So, it is not all black.

Senator O'LEARY (*Antigonish-Guysborough*): I must come back to the pears again. I am not being critical in any respect, but I do think we must revise an opinion that we formed. I am going to suggest to you that in view of the cost of pears as such to a competitor from whom we heard at one time or another—his cost in 1965 was $144.00, and yours was $87.83, or 65 per cent less. I must conclude that you are purchasing a large percentage of No. 2 Bartlett pears and a very large percentage of Kieffer pears, unless you can give me other reasons for your much lower costs.

Mr. SMITH: I think we would just want to re-emphasize that the quality, except for size, is the same.

Senator O'LEARY (*Antigonish-Guysborough*): I understood that previously, but there is that variation in price between Grades No. 1. and No. 2, and there is also a great variation between the two distinct types of pears.

Mr. SMITH: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): With this difference in price you can go back to any year you wish and find an 80 per cent variation between your costs and those of your competitors. You will find variation of 65 per cent and 50 per cent over a 4-year period. But, the same thing does not hold true in respect of peaches. I notice you are very close in your purchasing costs.

Co-Chairman Senator CROLL: You are getting the answer, are you, Mr. Smith?

Mr. SMITH: No, I do not think the senator wanted a comment from me on that.

Mr. JOYAL: I have a supplementary question, Mr. Chairman.
Are the products you market in Canada substantially the same as those your parent company markets in the United States?

Mr. SMITH: As a general statement I would say that this is true.

Mr. JOYAL: Are there any products that you market in Canada that are manufactured in the United States by your parent company?

Mr. SMITH: No.

Mr. JOYAL: Is there any of your products which go under a label other than that of Gerber?

Mr. SMITH: No.

Mr. JOYAL: Are there any other production facilities than your own which you use for the production of your particular commodities?

Mr. SMITH: Yes.

Mr. JOYAL: Which ones are these?

Mr. SMITH: Our teething biscuits are manufactured by McCormicks.

Mr. JOYAL: Is that the only exception?

Mr. SMITH: Orange juice is packed for us by H.P. Hood in Florida.

Mr. JOYAL: Are there any others?

Mr. SMITH: That is all.

Mr. JOYAL: Now, you suggested in answer to a question put to you by Mr. Basford relating to the cost of imported glass, that if it were not for the tariff which adds some 20 per cent to the cost, it would be cheaper to use American manufactured glass than Canadian manufactured glass. Is that correct?

Mr. SMITH: No, I do not think that is correct.

Mr. MERRETT: I do not think I said that. What I think I said was that the cost including exchange and the duty was greater than the cost of Canadian glass. Now, to relate this to the cost of Canadian glass—if we do not have to pay the tariff I cannot honestly say whether or not it would be cheaper.

Co-Chairman Mr. BASFORD: Just a minute. I thought you told me that it would be economic to import it without the tariff.

Mr. MERRETT: If I did I was not really sure of what I said, because again I am working back from recollection, and saying that the tariff rate is 20 per cent, and the exchange rate is 8 per cent.

Mr. JOYAL: Supposing you use all of the production facilities of your parent company, which has sales that are roughly 40 times yours, and you import those products into Canada, and assuming a 7 per cent or 8 per cent spread as between the Canadian and American dollar, would this, in your view, represent to the Canadian consumer a lesser price for your product?

Mr. SMITH: I really do not know what our products are selling for in the United States.

Mr. JOYAL: You are a wholly-owned subsidiary of an American company, but you do not know at what price these items are sold in the United States market?

Mr. SMITH: I certainly do not.

Mr. JOYAL: Thank you.

Mr. URIE: In view of your answer to the observations made by Senator O'Leary with respect to pears and peaches, I wonder if we could get from Mr. Smith the prices over the same period for the following commodities: apples, tomatoes.

Mr. SMITH: We do not use tomatoes.

Mr. URIE: What other items do you use, potatoes?

Mr. SMITH: Potatoes, we would use.

Mr. URIE: And carrots; beans.

Mr. SMITH: Green beans?

Mr. URIE: Yes, green beans.

Mr. SMITH: Those are the only beans.

Mr. URIE: No, these are pea beans.

Mr. SMITH: You do not want green beans?

Mr. URIE: No.

Mr. SMITH: Apples and potatoes?

Mr. URIE: Apples and potatoes.

Co-Chairman Senator CROLL: Mr. Smith, in order to assist our education and also yours, will you please obtain for us the comparative price on all goods that are sold in the United States and in Canada by your company? You can obtain that by a telephone call, if nothing else.

Mr. SMITH: Did you not get that information?

Co-Chairman Senator CROLL: Not for the United States. It is a little difficult for us to understand, because we do not know.

Mr. SMITH: But there is not really much reason for me to know.

Co-Chairman Senator CROLL: Then we will accept it that way. You get the information for us.

Mr. PEACEY: The American sizes are also different.

Co-Chairman Senator CROLL: Well, give us the sizes. We have a man who can do multiplication. Mr. McCutcheon?

Mr. MCCUTCHEON: Since you people left the eastern and the western markets, have you had any opportunity to discuss putting out a product for that market under a private label, or anything of that nature? I am intrigued, and I would like to know how do those poor people in the west and in the Maritimes get along?

Co-Chairman Senator CROLL: They are pretty sturdy out there.

Mr. SMITH: However, the answer to your question is no.

Mr. URIE: Are there any competitors either in the Maritimes or in the west, that you know of?

Mr. SMITH: No.

Mr. URIE: It is a total monopoly out there in the baby food business?

Mr. SMITH: In the canned baby food business, I believe that is the only merchandise.

Co-Chairman Senator CROLL: How big is the market for that business? I mean, what sort of total market is there in Canada approximately in that field of $27 million of $28 million, Heinz has 80 per cent of that. In addition to that, you are not in the west and you are not in the Maritimes.

Mr. SMITH: That is correct.

Co-Chairman Senator CROLL: You are doing all your business in Ontario and Quebec?

Mr. SMITH: That is correct.

Co-Chairman Senator CROLL: It just seems unreal that a market amounting to almost $30 million is there and no one competing for it.

Mr. SMITH: No; your figures are wrong, senator.

Co-Chairman Senator CROLL: You said $27 million

Mr. SMITH: But you said $30 million in the other market.

Co-Chairman Senator CROLL: No, a total of $25 million—you said $27 million, did you not?

Mr. SMITH: Yes.

Co-Chairman Senator CROLL: All right, I do not know off hand what the market is in the west and what the market is in the Maritimes, but you are out of both of those markets?

Mr. SMITH: That is correct.

Mr. MCCUTCHEON: Mr. Chairman, in simple mathematics on the basis of population with one third of the market or $9 million, Heinz have a monopoly on that.

Co-Chairman Senator CROLL: That is a fair way of putting it, and no one is challenging them.

Mr. McCUTCHEON: No.

Co-Chairman Senator CROLL: I want to know why.

Mr. ALLMAND: Mr. Chairman, is there evidence to indicate that the people in the Maritimes and in the west still strain their own food?

Co-Chairman Senator CROLL: As a matter of fact I asked the question earlier in the day. A home economist, and quite a competent one, gave me the information. In the case of the feeding of a six months old baby, using a home prepared diet it costs \$1.49 per week. Using canned foods exclusively, it would be approximately \$7 per week. The Maritime people seem to be doing it at \$1.49, because they are pretty robust at the time they get here, as also are the people of Ontario and the people of the west. Is there any relation between these figures, do you know anything about it?

Mr. SMITH: No, sir.

Co-Chairman Senator CROLL: So no one in the firm knows what it would cost?

Mr. SMITH: Oh, yes.

Co-Chairman Senator CROLL: A prepared diet?

Mr. SMITH: No.

Co-Chairman Senator CROLL: You don't know anything about it?

Mr. SMITH: It is strained peaches right now, and it would be most difficult to give information on all the other things, which is a seasonal proposition.

Co-Chairman Senator CROLL: But there are people in the Maritimes and people in the west, and I am really excluding British Columbia from this, that cannot carry the burden as a result. There has been an additional cost of at least two cents on the product. If you have two children to feed seven days a week, that is 28 cents added to the bill of these poor families, and they cannot bear it, yet they are exposed to that monopolistic market.

Mr. SALTSMAN: Mr. Chairman, I have a supplementary question. I share the concern of other members in trying to figure out why you cannot compete in the east and west regardless of the market there. This morning I asked whether Heinz had any productive advantage over a company like yours, and I believe the record indicates that they said there were no productive advantages. Now, you assume that you are as efficient as they are. I also assume that the CNR and the CPR would charge you the same shipping costs for goods to the east and to the west as they would charge the Heinz company. Also there are large jobbers to distribute your goods, and you would not have to send a salesman out there to do it, and also your plants are no farther than the Heinz plants. Are these correct assumptions?

Mr. SMITH: Yes, but some of them are not correct.

Mr. SALTSMAN: We would like you to correct these things, because it is an important question, for here is a situation which is monopolistic in some parts of Canada, and I would like to understand why. Now, can we go over these. How about transportation? Do you have any cost disadvantage in terms of transportation?

Mr. SMITH: Yes. I am talking about history now. When we were out there we did not have an adequate volume to get truck carload quantities, and there is a big differential in freight rates as I am sure you are aware, and so you are penalized at that point.

Mr. SALTSMAN: Is this both in the east and in the west?

Mr. SMITH: Yes.

Mr. SALTSMAN: It applies in the west as well?

Mr. SMITH: Yes.

Mr. SALTSMAN: What about your production costs, can you produce as cheaply as your competitor?

Mr. SMITH: We are quite efficient. Whether we can produce as cheaply as our competitor, I really don't know.

Mr. SALTSMAN: You have some transportation disadvantage. Give us some indication of how great this disadvantage is in terms of how it would affect your costs.

Mr. SMITH: We can give this to you. We do not have it here.

Mr. SALTSMAN: The other thing is, I presume in your business as in any other business, an increased volume helps cover your overhead and at the same time you might have some disadvantage in transportation, but you might get some advantage in being able to ship out there in terms of increasing your production runs in covering part of your overhead. What kind of disadvantage exists because of transportation as against the advantage that exists in increasing your production?

Mr. SMITH: This we do not have readily available. This would take a considerable study in depth to come up with an answer to that question.

Mr. SALTSMAN: Can you give us some idea of the difference in landed cost to a distributor in the Maritimes, between a comparable product of yours and that of your competitors?

Mr. SMITH: I can furnish you with what our landed costs would be. I do not know what our competitors landed cost would be. I assume it would be the same. I can give you a scale that if we have carload quantities of this amount it would cost us that much.

Mr. SALTSMAN: We had indication from the Heinz Company this morning that they place considerable emphasis on in-store locations, in the sense that they come into a store, make an arrangement, rent aisle space and things like that. Do you have similar practices to that?

Co-Chairman Senator CROLL: He said he had. While you were out, Mr. Basford questioned him.

Mr. SALTSMAN: You are doing the same thing?

Mr. SMITH: Under the co-operative advertising program, yes.

Mr. SALTSMAN: Is transportation, then, the only limiting factor in your expansion in these areas?

Mr. SMITH: No. There are marketing costs, advertising costs, promotion costs. All of the costs we list are factors.

Mr. SALTSMAN: To what extent do you do national advertising, compared to your competitors?

Mr. SMITH: We do no national advertising.

Mr. SALTSMAN: Do you feel that by not having done national advertising this has hurt you to some extent? In other words, that you have not created a market for your product nationally?

Mr. SMITH: Of course, we would not advertise nationally if the product were not available.

Mr. SALTSMAN: But you did have the product available for a considerable time?

Mr. SMITH: We did advertise nationally, when we did have the product available.

Mr. SALTSMAN: Could you give us some idea of the role that national advertising plays, in terms of orienting the customer towards one product rather than another and confusing, perhaps, the consumer element of value in that product; in other words, if you do enough national advertising and spend

enough money on it, does it tend to command customer loyalty to such an extent that the advertising itself may create a sort of near monopoly, in the sense of consumer taste or attitudes for that product?

Mr. THEOBALDS: We do not follow your question, sir.

Co-Chairman Senator CROLL: First of all, I thought he put it pretty plainly. Would the reporter please read it back?

(*Question read*)

Mr. SALTSMAN: I do not understand it myself.

Co-Chairman Senator CROLL: You do not need an answer then, do you?

Mr. THEOBALDS: I do not think I have that answer with me. I believe it would depend to a great extent on the product. If the product is a good form of product and it is heavily advertised, dependent on many marketing conditions and competition activity, and so on—I really do not know whether it would do the job that you were speaking of or not. There are many factors involved in national advertising. You may spend a lot of money in advertising, but the competition is spending equal amounts against you, or probably more, then it may be that your advertising is not as effective as you want it to be.

Co-Chairman Senator CROLL: Gerber's Baby Food has been advertised nationally in the United States as long as I remember. Is that true?

Mr. THEOBALDS: That is quite true.

Co-Chairman Senator CROLL: We read the magazines and newspapers and we see it. I never knew there was anything but Gerber's until I grew up.

Mr. THEOBALDS: There is a certain amount of advertising through overflow advertising but we still have to advertise in Canada in the markets in which we are selling, to compete.

Co-Chairman Senator CROLL: There is nothing more we can do. We have expressed our unhappiness about the situation at the present time but it is not their fault. They are doing the best they can. Are there any other questions?

Co-Chairman Mr. BASFORD: All that needs to be done is for Dominion Stores and Canada Safeway to place a couple of good orders with them.

Co-Chairman Senator CROLL: There you are, now. That was worth the trip.

Mr. Smith, you have been very helpful and you have given us a great deal of information. There is also some information you will be sending to us, as soon as you can. There will be a letter from Mr. James outlining what is needed, but you have an idea of it now so that you can start work on it. We thank you very much.

The committee adjourned.

GERBER PRODUCTS OF CANADA, LTD.

SUMMARY OF OPERATIONS

Fiscal Years Ended March 31

000's Omitted

	1961		1962		1963		1964		1965		1966	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	$	%	$	%	$	%	$	%	$	%	$	%
NET SALES	3,956	100.0	3,966	100.0	4,625	100.0	4,981	100.0	5,554	100.0	5,917	100.0
*COST OF SALES	2,337	59.1	2,544	64.2	3,248	70.2	3,340	67.1	3,630	65.4	3,853	65.1
GROSS MARGIN	1,619	40.9	1,422	35.9	1,378	29.8	1,641	32.9	1,924	34.6	2,064	34.9
EXPENSES												
Marketing Expense												
Direct Sales Force	602	15.2	594	15.0	591	12.8	541	10.9	560	10.1	628	10.6
Media Advertising	294	7.4	314	7.9	387	8.4	380	7.6	323	5.8	325	5.5
Co-operative Advertising	92	2.3	82	2.1	105	2.3	133	2.7	140	2.5	164	2.8
Direct Mail and Other Promotions	405	10.3	258	6.5	175	3.8	105	2.1	146	2.6	148	2.5
General Marketing	110	2.8	114	2.9	110	2.4	115	2.3	104	1.9	125	2.1
Total Marketing Expense	1,503	38.0	1,362	34.3	1,368	29.6	1,275	25.6	1,272	22.9	1,390	23.5
Transportation and Warehousing												
Transportation	166	4.2	178	4.5	195	4.2	167	3.4	170	3.1	171	2.9
Plant Warehouse	41	1.0	56	1.4	70	1.5	65	1.3	83	1.5	101	1.7
Public Warehouses	41	1.0	35	.9	22	.5	4	—	—	—	—	—
Total Transportation and Warehousing	248	6.3	269	6.8	287	6.2	236	4.7	253	4.6	272	4.6
ADMINISTRATIVE AND GENERAL EXPENSE	191	4.8	275	6.9	226	4.9	229	4.6	233	4.2	242	4.1
OTHER EXPENSES (NET)	3	.1	13	.3	11	.2	75	1.5	76	1.4	65	1.1
NON-CURRENT EXPENSE (Interest Applicable to Prior Years)									72			
TOTAL EXPENSES	1,945	49.2	1,918	48.4	1,892	40.9	1,815	36.4	1,906	33.0	1,970	33.3
PRE-TAX EARNINGS (LOSS)	(326)	(8.2)	(496)	(12.5)	(515)	(11.1)	(174)	(3.5)	18	.3	94	1.6
*Cost of Sales includes:												
Ingredients	833	21.1	856	21.6	977	21.1	1,044	21.0	1,076	19.4	1,219	20.6
Containers	902	22.8	1,203	30.3	1,430	30.9	1,426	28.6	1,624	29.2	1,718	29.0
(These are approximate—see Exhibit B for costs)												

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GERBER PRODUCTS OF CANADA, LTD.

COST OF SALES

Fiscal Years Ended March 31

000's Omitted

	1961 Amount	1961 Percent of Net Sales	1962 Amount	1962 Percent of Net Sales	1963 Amount	1963 Percent of Net Sales	1964 Amount	1964 Percent of Net Sales	1965 Amount	1965 Percent of Net Sales	1966 Amount	1966 Percent of Net Sales
	$	%	$	%	$	%	$	%	$	%	$	%
Inventory April 1	1,386		1,290		1,472		1,791		1,376		1,619	
Purchases	1,693		2,047		2,654		2,142		2,942		3,271	
Wages and Salaries	365		494		603		477		612		629	
Other Production Expense	183		185		309		305		319		365	
Sub Total	3,627		4,016		5,038		4,716		5,249		5,884	
Less: Inventory March 31	1,290		1,472		1,791		1,376		1,619		2,031	
COST OF PRODUCTS SOLD	2,337	59.1	2,544	64.2	3,247	70.2	3,340	67.1	3,630	65.4	3,853	65.1

SALARIES, WAGES AND EMPLOYEE BENEFITS

Fiscal Years Ended March 31

	1961 Amount	1961 %	1962 Amount	1962 %	1963 Amount	1963 %	1964 Amount	1964 %	1965 Amount	1965 %	1966 Amount	1966 %
Salaries and Wages												
Production	365	9.2	494	12.5	603	13.0	477	9.6	612	11.0	629	10.6
Sales and Marketing	459	11.6	470	11.9	464	10.0	442	8.9	460	8.3	507	8.6
Warehousing and Shipping	30	.8	36	.9	47	1.0	45	.9	52	.9	56	.9
Administrative and General	114	2.9	111	2.8	111	2.4	114	2.3	104	1.9	117	2.0
TOTAL SALARIES AND WAGES	968	24.5	1,112	28.0	1,225	26.5	1,078	21.6	1,228	22.1	1,309	22.1
Employee Benefits	80	2.0	93	2.3	109	2.4	104	2.1	109	2.0	120	2.0
TOTAL WAGES AND BENEFITS	1,048	26.5	1,205	30.4	1,334	28.8	1,182	23.7	1,337	24.1	1.429	24.2

GERBER PRODUCTS OF CANADA, LTD.

OPERATING STATISTICS—SELECTED MAJOR COMMODITIES

Year Ended March 31, 1966

	Strained Foods									
	Pears	Peaches	Bananas	Vegetable and Beef	Chicken Rice	Vegetable and Chicken	Apple-sauce	Apricots	Mixed Fruit	Carrots
	$	$	$	$	$	$	$	$	$	$
NET SALES	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24
Cost of Sales										
Ingredient Materials	.18	.27	.30	.18	.20	.19	.16	.24	.23	.05
Containers	.41	.41	.41	.41	.41	.41	.41	.41	.41	.41
Direct Labour	.05	.05	.06	.06	.06	.06	.05	.05	.05	.09
Other Production Expenses	.17	.17	.17	.17	.17	.17	.17	.17	.17	.17
Total Cost of Sales	.82	.90	.94	.82	.84	.83	.79	.87	.86	.72
GROSS MARGIN	.42	.34	.30	.42	.40	.41	.45	.37	.38	.52
Marketing Expenses	.32	.32	.32	.32	.32	.32	.32	.32	.32	.32
Transportation and Warehousing	.06	.06	.06	.06	.06	.06	.06	.06	.06	.06
Administrative and General	.06	.06	.06	.06	.06	.06	.06	.06	.06	.06
Total Operating Expense	.44	.44	.44	.44	.44	.44	.44	.44	.44	.44
GROSS MARGIN LESS OPERATING EXPENSE	$(.02)	$(.10)	$(.14)	$(.02)	$(.04)	$(.03)	$ .01	$(.07)	$(.06)	$ .08

GERBER PRODUCTS OF CANADA, LTD.

RECORD OF MARKETING BOARD PRICES FOR PRODUCE

Year	Peaches		Bartlett Pears		Kieffer Pears		Plums			
	Elberta	V's and Amber Gem	#1	#2	#1	#2	Stanley	Damson	Carrots	Squash
	$	$	$	$	$	$	$	$	$	$
1958	92.00	82.00	100.00	60.00	50.00	50.00	65.00	65.00	24.00	10.00
1958	92.50	82.50	105.50	65.50	57.50	57.50	70.50	70.50	24.00	10.00
1960	105.50	105.50	115.50	70.50	59.00	35.00	80.50	80.50	24.00	10.00
1961	94.00	89.00	108.50	63.50	57.00	33.00	80.50	80.50	24.00	10.00
1962	105.50	100.50	107.50	62.50	57.00	33.00	85.00	85.00	24.00	10.00
1963	103.50	98.50	115.00	70.00	58.50	34.50	82.50	85.50	24.00	10.00
1964	111.50	106.50	107.50	67.50	59.00	34.50	85.50	100.50	24.00	10.00
1965	125.50	120.50	130.50	90.50	67.00	40.00	95.50	120.50	26.25	10.50
1966	125.50	120.50	115.00	75.50			105.50	132.50	28.00	10.50

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE

AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 14

THURSDAY, NOVEMBER 3, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Canadian Canners Ltd.: Mr. Lawrence H. Johnston, President; Mr. W. G. Lister, Manager, Accounting Division; Mr. Reginald M. Mapp, Vice-President, Marketing.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25079—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT (PRICES)

For the Senate

Hon. David A. Croll, Joint Chairman

the Honourable Senators

Carter,
Croll,
Deschatelets,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Duquet,
Gray,
Irvine,
Leblanc (*Laurier*),
Lefebvre,
Mandziuk,
McCutcheon,
McLelland,
Nasserden,
Olson,
Otto,
Ryan,
Saltsman,
Scott (*Danforth*),
Smith,
Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the

25079—1½

problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, November, 3, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9:30 a.m.

Present: For the Senate: The Honourable Senators, Carter, Croll (*Joint Chairman*), Deschatelets, Inman, McGrand, O'Leary (*Antigonish-Guysborough*)—6.

For the House of Commons: Messrs. Allmand, Basford, (*Joint Chairman*), Mandziuk, McCutcheon, McLelland, Saltsman, Scott (*Danforth*), Smith—8.

In attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant; Mr. John J. Urie, Q.C., Counsel.

The following were heard:

Canadian Canners Limited:

Lawrence H. Johnston,
President.

W. G. Lister, Manager,
Accounting Division.

Reginald M. Mapp, Vice-President,
(*Marketing*).

At 1.13 p.m. the Committee adjourned until Monday next, November 7, at 3.00 p.m.

Attest.

Patrick J. Savoie,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Thursday, November 3, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

The Co-Chairman Mr. BASFORD: The committee will please come to order.

This morning we welcome before the committee the Canadian Canners Limited. On my left is Mr. L. H. Johnston, President of the company. With him are Mr. W. G. Lister, Manager of Accounting, and Mr. R. M. Mapp, Vice-President, Marketing. Without further ado I will call upon Mr. Johnston to present his brief.

Mr. L. H. Johnston, President, Canadian Canners Limited: Honourable Chairmen, Honourable Members of the Joint Committee of the Senate and House of Commons, Ladies and Gentlemen—

On October 17 we received from Dr. R. W. James, Special Assistant to the Joint Committee on Consumer Prices, formal notice for representatives of Canadian Canners Limited to appear before the joint committee on Thursday, November 3.

On October 21 we received from Dr. R. W. James a listing of "Suggested Topics for Discussion with Fruit and Vegetable Canners." We have prepared exhibits and comments on the topics included in this listing and these are contained in this submission.

We apologize for not being able to supply copies of our submission in French. We did not have the facilities in Hamilton to do this. We also apologize for not being able to supply copies one day prior to appearance.

In our company we have put into effect many improvements for increased productivity. These have helped to control costs of providing the consumer with the quality and convenience in food products that is part of the standard of living we enjoy in Canada.

There appears to be an inflationary tendency in the economy today which makes the consumers more aware of rising prices and particularly food prices because of their basic every-day nature.

The rising cost of food in the average food basket today is due to the inflation factor within the total economy and the variety and convenience foods demanded by the housewives.

Nevertheless, related to the rise in disposable income levels the portion spent on food shows a steadily declining percentage of total income.

The Canadian consumer can eat better for less money in relation to real income than consumers can in any other country in the world with the exception of the United States. Certainly this must be a testimony to efficiency in the food processing and distribution system.

The competition for the increased consumer spending power has seen upgrading and added conveniences incorporated into a unit of food. This is a feature of our highly competitive free enterprise system. This competitive force, more than anything else, demands economical and efficient operation from the individual companies if they are to survive.

In our business, profits are not excessive, particularly compared to other manufacturing industries. We could certainly wish for a lot more stability in our business, allowing us a greater assurance of achieving more reasonable profits, but we cannot see how this can be achieved without reducing the benefits of the competitive economic system in which we live.

I would like to make some comments on our company in particular at this point. We believe the joint committee will have a better understanding of our exhibits and comments if we first table certain information on Canadian Canners Limited and some general description of the activities of the fruit and vegetable canning industry.

Canadian Canners Limited was incorporated by letters patent dated April 23, 1923 issued under the Companies' Act of Canada, but actually has been a continuing company since 1903.

The company is a major factor in the industry and is primarily engaged, directly and through subsidiary companies, in the processing and sale throughout Canada of canned fruits, vegetables, soups and other specialty line canned and bottled food products.

The company and its subsidiaries own and operate 14 canning and preserving plants located in the provinces of Ontario (10), Quebec (2), Manitoba (1) and British Columbia (1). This will indicate the national character of our company. The company has approximately 1,300 permanent, and some 6,000 seasonal employees.

The company's products are sold principally under the featured Aylmer and Del Monte labels. During the fiscal year 93½% of our sales were made under company labels. In 1965, 92% of our products were packed in Canada using Canadian produce, Canadian labour and domestic supplies. The remaining 8% were imported canned goods, packed from produce which cannot be commercially grown in Canada—cling peaches, pineapple are examples. During recent years approximately 5% of our sales have been made in the export market. Our product line includes over one huhdred and fifty varieties and types of canned fruits, vegetables, soups, juices, fruit drinks, pickles, olives, jams, jellies, catsup, special diet products and other specialties.

Canadian Canners Limited has some 3,500 Canadian shareholders who hold the major portion of the 468,137 issued and outstanding Class A common shares which are listed and traded daily on the Toronto and Montreal Stock Exchanges.

I would like the members of the committee to take particular notice of that. Sometimes this is not known to all the people who are concerned about our company.

Substantially all of the 936,274 issued and outstanding Class B shares are owned by the California Packing Corporation of San Francisco, California, which acquired an approximate two-thirds capital stock interest in 1956 under a stock purchase arrangement with the company shareholders.

In summary, you can see that the California Packing Corporation does hold a two-thirds controlling interest in our company. The other one-third is held by some 3,500 Canadian public shareholders.

I would like at this point to comment on our management committee and board of directors. Our management committee is composed of seven of our senior executives in Hamilton, and certainly the policies—and decision-making of our company are directed by that group of seven people operating in Hamilton. Our board of directors is comprised of 12 directors. Four are

executives of the California Packing Corporation. We have four of what we refer to as "outside" directors. These are gentlemen who are Canadian businessmen and in our mind represent the 3,500 Canadian shareholders who hold the Class "A" stock particularly. We have four "inside" directors, if you choose to call them that. These are Mr. R. N. Mapp, our Vice-President, Marketing; Mr. A. L. Nelson, our Vice-President, Production; Mr. W. J. Drynan, our Vice-Chairman and former President of our company; and myself.

Our fiscal year terminates at the end of February each year and early in May an Annual Report is forwarded to our shareholders. This Annual Report, which is made available to the public through the press and investment reporting services, includes information on our financial position and earnings. Copies of our latest Annual Report for the year ended February 28, 1966 have been made available to the Joint Committee—and these are the reports here which we are talking about.

THE FRUIT AND VEGETABLE CANNING INDUSTRY

The canning industry in Canada can be traced back to 1870. The first plant to survive was opened in Grimsby, Ontario in 1870. In 1881 the Aylmer Canning Company began operations in Aylmer, Ontario. According to the D.B.S. census of 1963 the segment of the food processing industry, represented by the fruit and vegetable canners and preservers, numbers 334 establishments.

Canned fruits and vegetables are important to the consumers because they bring the products from a short season to the family table all year round. They offer convenience, have a high quality and are available at economical prices.

Canning is important to the grower because the industry utilizes the crops from a major portion of the total fruit and vegetable acreage in the country.

SEASONALITY—A VITAL FACTOR TO CANNERS

The fact that fruits and vegetables are seasonal has a heavy impact on us as a canner. Unlike most industries which operate every week of the year, we must concentrate our production in a few weeks.

In addition to making the most economical use of machinery and equipment in a short space of time, the demand for high quality, further compresses the working season. In many fruits and vegetables the battle to preserve top quality results in timing demands where minutes are significant, and delay can easily result in a quality deterioration. Listed below are the days which were available for packing selected canned fruits and vegetables at the plants of Canadian Canners Limited in the 1965 packing season.

Product	Production Area	Number of Available Days
Asparagus	Western Ontario	49
Green Beans	Quebec	33
Wax Beans	Quebec	54
Red Beets—Spring	Western Ontario	17
—Fall	Western Ontario	25
Corn	Western Ontario	35
Peas	Western Ontario	63
Pumpkin	Western Ontario	14
Spinach	Western Ontario	22
Tomatoes	Western Ontario	64
Strawberries	Central Ontario	21
Peaches	Central Ontario	57
Bartlett Pears	Central Ontario	28
Red Pitted Cherries	Central Ontario	11
Fresh Pack Cucumbers	Central Ontario	54

You will see it is quite a range of available days here. For red pitted cherries, which are packed in central Ontario, there were only 11 days available in 1965. The product with the greatest number of days in 1965 was tomatoes, with 64 days. Peas, with 63 days, were closest to tomatoes.

We pursue two principal courses in our efforts to maintain an efficient operation.

(1) Maximum use of equipment and personnel during the short canning season can be accomplished only by precise planning during planting and harvesting of the crops. This requires scheduling of processing operations for the maximum number of hours per day.

(2) Extension of use of equipment and personnel can be accomplished by extending the normal growing season and by adding production of non-seasonal packs.

STORAGE—THE CANNERS RESPONSIBILITY

Significant changes in recent years in canned foods distribution methods have necessitated major investments by canners in warehousing facilities.

Traditionally the canner packed fruits and vegetables during the season and then sold and shipped his product immediately to the trade. After the packing season the canner could literally close the plant, relying on the wholesaler to store and distribute the merchandise to the retailers throughout the year.

Conditions are much different today. Wholesalers and retailers have placed heavy emphasis on reducing inventories and increasing stock turn-over, with the result that the canner must today provide storage for an extended period.

In addition to substantial costs for this storage, increased warehouse labour expense is entailed for more frequent handling and broader product mix to satisfy customer service demands.

The costs of the canner have been increased by the assumption of enlarged storage responsiblity and customer service.

FINANCING THE CANNING OPERATION

The back up of inventories from the wholesaler and retailer to the canner increases our cash requirements.

We are very large users of short term financing. Our requirements peak in the fall, when most large packs are completed and our inventories are highest.

The success of our operation is dependent on receiving an adequate supply of quality raw produce for processing. We pay the growers promptly for this raw produce. In addition large funds must be readily available to meet our seasonal weekly payroll and to pay our suppliers. All this occurs long before we realize income from sale of the finished product.

Consequently, we must have a strong line of credit immediately and continuously available. The cost of this is substantial.

The financing cost are substantial at any time, but have been even more so during recent months due to higher interest rates—and I am sure we are all familiar with that situation.

Labour: In the seasonal activities of Canadian Canners Limited we encounter some very difficult employment problems. The size of our work force must expand and contract with each change in seasonal harvest activity.

Over the years, significant changes have occurred within the industry.

Technical improvements in growing, processing and transportation have produced improved products. An ever-increasing demand has necessitated an expansion of facilities. Although much has been done in product diversification to extend the operating season and improve production cycles, we are still a seasonal business. This presents a formidable problem of increasing our plant

employees by up to ten times during the peak pack period. At a time when unemployment is at a record low, as it was during the 1966 packing season, the female population, representing 65 per cent of our seasonal labour force, has little or no incentive to seek employment to supplement family income. The industry has found it necessary to substantially increase its labour procurement staffs and absorb transportation and other costs in addition to wages. This is most important, gentlemen. Not only have we been facing increasing wage costs, but we have been facing increases in the cost of the procurement of our labour force, and in the cost of transporting that labour force to the plant. In 1966, Canadian Canners Limited entered into the Federal Government programme of importing West Indian workers which was of very material help but only at substantially increased cost. As much as 61 cents per hour additional costs were necessary for West Indian workers, including transportation, food and housing. In spite of this, our Company was consistently short of competent people during the critical production periods of August and September, 1966—and I am sure this situation was true throughout the industry.

Labour costs have increased on all levels of production and we submit a representative statement of wage increases in the form of Exhibit 8 attached to this submission.

If you would like to turn to that for a minute—this is the last page of the submission—you will see it shows changes in rates for two selected jobs on a seven-year comparative basis. You can see that the change in 1966 over 1960 in one plant was 32.7 per cent, and in the other plant it was 36.7 per cent. In 1966 over 1965 those figures were 4.8 per cent and 5.7 per cent. It is interesting to note that there is an increase each year in these rates.

PRODUCTION

SOURCE OF RAW PRODUCE

Our company is dependent upon the Canadian farmer to provide us with our basic product. Without him, a major part of our operations would cease to exist. A primary objective, therefore, is to encourage the farmer to grow canning crops for Canadian Canners Limited.

Without the canning industry, the growers of perishable crops would encounter all the problems that characterize the fresh produce market. Armed with a contract with the processor, the grower has a guaranteed market for his produce, at a specific price.

The processing of canning crops converts the farmer's fresh product to a storable form; eliminating the need for pushing the fresh commodity onto a reluctant market. The problem of overproducing is reduced when acreage is grown on a contract with processors, because the processor is able to keep in close touch with shifts in consumer demand and to express these shifts in terms of acreage changes from year to year.

However, the price processors pay for these crops is largely beyond their control.

In Ontario, for instance, the prices for asparagus and most tender fruits are set by the respective Provincial Marketing Boards, with a minimum of discussion with processors. Most canning vegetable crops are covered by Marketing Boards and prices are set by negotiations with processors concerned.

In British Columbia, the prices of most tree fruits are set by the B.C. Tree Fruits Limited (a growers' organization), and allocations of tonnages are made by this group to the processors. Most canning vegetables are covered by marketing boards and the prices are set with some negotiations taking place with the processors concerned.

As a result of this procedure, some of the highest raw produce prices in the world have been established for Canadian-grown fruits and vegetables.

Produce prices were generally increased for the 1966 crops and a sample of specific raw produce prices and costs can be found later in this submission in our answer to Topic No. 3. This is on Exhibit 3, and I think it would be better to refer to that late rather than to turn to it now.

Most fruits and some vegetables, including large tonnages of tomatoes and asparagus, are still harvested by hand. Other vegetable crops are now harvested almost 100 percent mechanically. We are thinking there primarily of corn, peas, and green and was beans. There have been developments in recent years which have made it possible for these vegetables to be harvested 100 per cent mechanically, and this has certainly helped to alleviate the labour shortage but has added to the cost. In almost all cases, the capital investment required for mechanical harvesting equipment has been made by the processors. Our investment has been substantial in these areas, but we have had the advantage of being able to combat the labour shortage.

RESEARCH

Many exciting changes have taken place in the production of food items in the past twenty years. These were made possible through extensive research in the many fields of food production, including the development of new crop varieties, new and improved harvesting equipment, new processing procedure, and new packaging and material-handling equipment.

Searching for ways to improve the production of high-quality foods is a cost factor in our operations, but this is kept at a minimum since we have access to extensive research done in the United States through our association with California Packing Corporation. We think it very important that you realize that we are able to make available research findings, which benefit both grower and consumers.

Agricultural research has been of great assistance to the canning industry. It has contributed, substantially, to the production of high-quality foods.

The whole field of food technology has undergone substantial changes during the last twenty years, and many of the improvements in the processing field have been the result of scientific and agricultural research efforts being directed towards finding ways and means of improving quality and reducing costs, in order to maintain reasonable prices for canned foods purchased by Canadian consumers.

I should like now to make some comments on marketing.

COMPETITION

We are in a consumer oriented business, trying to provide the Canadian housewife with a quality, variety and package size that she wants to buy to feed her family.

We have a far too high regard for her intelligence to think that we could make her buy products she did not want. The choice available in today's supermarket or grocery store gives her continually and opportunity by rejection and preference to get what she wants.

Our industry is extremely competitive in all activities from the farm to the consumer. We compete with all other processors, we compete with many other food products such as formulated convenience foods in the bakery line and dairy desserts.

In the marketing of our Aylmer and Del Monte products we compete for consumer preference. We must therefore be alert to all competitive forces to ensure that our products are available at prices which will obtain a fair share of the housewife's business.

PRICING POLICY

It is our policy to make available to the consuming public a high quality of canned foods at prices as reasonable as our costs plus a moderate profit will permit.

In our judgment both the canning and distributing trades have a responsibility to the public to keep prices on a fair basis commensurate with today's costs.

We follow uniform sales and distribution policies. We sell to each of our customers in a given market at the same price.

We operate in a competitive market with the full impact of the law of supply and demand at work.

In our operation the profit derived from an individual product is not necessarily representative of the whole product range. We may have the same product being unprofitable one year and profitable the next. Only the total picture is a measure of how successful we have been as a company.

This is something that I am sure is true of all companies in the canning industry, that some items are profitable and some are not. It is only when one looks at the total picture, and this can vary, that one is able to measure success. An item that is unprofitable this year may turn out to be of your profitable items next year.

FIELD SALES

Field selling of Canadian Canners' products is handled by a combination of our own salaried personnel and independent brokerage organizations. Currently there are 74 salaried employees and 19 brokerage companies representing our products to the grocery industry.

Our representatives are the principal means of keeping our buyers informed on crop conditions, pricing, advertising programmes, new items and many other factors that can influence the cost and supply of products in the buyer's warehouse.

DISTRIBUTION

Moving products from plants to customers has seen revolutionary changes in patterns and techniques.

Computer oriented inventory control programmes are now in use by our major customers. This results in considerable savings to them, but forces additional warehousing and supply problems back on the canner. Replenishment lead time is reduced to just days where several weeks was considered acceptable not too long age.

The change in distribution has demanded refinements in planning, processing, packaging and warehousing. To meet this customer service demand, distribution warehouses are now maintained at strategic locations across the country. These warehouses allow us to maintain a full line of products, grades and sizes within easy access of primary marketing areas.

Our objective is to improve customer service, which, in turn, has made it possible for our customers to more efficiently market and distribute our products at their lowest possible cost.

ADVERTISING AND PROMOTION

Like all consumer-goods marketers, Canadian Canners Limited is controlled by the interests and choices of the consumer, who alone exercises the final "buy"-"don't buy" decision. Therefore, the job of selling Aylmer and Del-Monte products is to indentify them with the values people look for in such products, and the job of advertising—which is simply salesmanship on a mass basis—is to communicate this sales message to the greatest number of prospective customers at the lowest possible cost.

Over the years, we have found that the most effective advertising for our products is informative, "service" advertising. Our customers are not necessarily interested in a can of fruit or vegetables as such. They are interested in how these products can help them create better, more wholesome, more attractive meals for their families.

So our advertising has tried, first, to direct itself to the personal values that motivate people, and then offer the assurance of Aylmer and Del Monte quality and dependability in realizing these values.

In today's highly competitive food industry, it is not enough to offer merely another can of corn or peas, no matter how favourable the price. Our experience in over sixty years of marketing has taught us that the consumer wants more than this, and that our real product—if we are to maintain our franchise in the market—must be quality and service. This is the theme and promise of all our advertising, and in making this public commitment, we have obligated ourselves to a standard of performance that will consistently live up to our promise.

In our efforts to promote our products we have sought the co-operation of our distributors and retail outlets by offering co-operative advertising programmes. The purpose of these programmes is to help defray the cost to our customers for their Aylmer and Del Monte local advertising and merchandising efforts at the retail level. Proof of performance is required before payments are made. These programmes are made available on identical terms to all customers who compete in a particular market.

Mr. Chairman, ladies and gentlemen, I would like now to turn to our comments on the suggested topics which were forwarded to us by Dr. James.

In the preceding description of Canadian Canners Limited and the fruit and vegetable industry we feel that we provided the background information against which the answers, information and exhibits directly related to the "Suggested Topics for Discussion with Fruit and Vegetable Canners," as submitted to us by Dr. R. W. James, Special Assistant, should be reviewed.

(*Topic No. 1*)

Comparative financial statements for the period 1960-65 inclusive, showing gross sales, margins, cost of raw materials purchased, salaries and wages, operating and selling expenses and net profit.

(*Answer*)

We have submitted to you separately copies of our our published Annual Report for the year ended February 28, 1966. We are including as Exhibit 1 of this submission a schedule of comparative financial statements for the six years 1960-61 to 1965-66, showing a detail of operating and selling expenses, and trying into figures which are shown in our published report. Before turning to that exhibit, I would like to continue with the next paragraph.

The earnings of our company and of the fruit and vegetable canning industry are considerably lower than the average level of earnings for manufacturing companies. I believe this is important for all of us to realize. The canning industry is a volume business with a one inventory turnover per year, operating on a very low profit margin per unit. This is important, when looking at percentages, because this is a one year inventory turnover we are looking at. Strong competitive conditions exist in the industry and earnings over the years have been at low levels.

Turning to page 21 of the brief for a moment, you will see that we have a table for six years of comparative figures. We have put this table together on a basis which we believe ties in with what was requested in topic number one. Looking at the final earnings figures, you will see that our earnings in the last three years were substantially higher than in the first three years, when the

earnings were certainly at a low and unsatisfactory level. Looking at that table, you will see the percentage of gross sales ranged from 1.0 per cent to 1.4 per cent in the first three years, while the return on shareholders' equity was from 1.8 per cent to 2.5 per cent. They were most unsatisfactory returns.

Our figures for the last three years have improved somewhat but they are still certainly at a very low level compared to industry in general. We will be glad later to discuss any details with any lady or gentleman who may have questions in relation to that schedule.

(Topic No. 2)

Show separately annual advertising expenses and their relationship to gross sales for the six year period. Detail principal charges made to this account.

(Answer)

Keeping in mind our background comments on advertising and promotion, we are submitting here the specific advertising expenses for a six year period 1960-61 to 1965-66 in the form of an attached statement that we have marked Exhibit 2.

We show the same breakdown here, and we believe the information is that which was requested by this committee.

(Topic No. 3)

Show per-ton laid-down cost at plant of some of the principal fruits and vegetables purchased annually by years for the period.

(Answer)

The more significant raw produce processed by the company are peaches, tomatoes, peas, corn and white beans. The prices per ton paid to the grower and the laid-down costs at the canning plant for the seven years, 1960 to 1966 inclusive, are shown in Exhibit 3.

Generally an upward trend in prices paid to the grower has been experienced over the period. It can be observed that this trend has been particularly evident in the last two years.

The expenses involved in laying the raw product down at the cannery vary from product to product, but are primarily freight or cartage, cost of field staff, raw produce containers and cost of equipment used in harvesting the crops.

This would explain the difference between average growers' price and our laid-down cost at the plant.

These expenses will fluctuate on a per ton basis from year to year depending upon the yields per acre of the crops which affect the efficiencies of the harvesting operation and the volume over which the cost of field staff and containers may be allocated. The cost of freight or cartage fluctuates according to the crop results and the proximity of the annual growing areas to the cannery, which for example is affected by crop rotations.

These are the costs per ton of the five principal products which we pack.

(Topic No. 4)

Show the cost of containers and other packaging materials for the past six years and show their percentage relationship to gross sales.

(Answer)

To illustrate the change in the price of cans, glass and corrugated cases a comparison on an index basis for seven years is shown in Exhibit 4.

This has been done on an index basis, which we believe is more informative for the purposes of this committee.

The prices vary from year to year as a result of suppliers price changes and also as a result of changes in our specifications.

We may change the type of container, thinking more of a type of corrugated carton. This is what we mean when we talk about specifications here. Sometimes we may use a plain carton and then may decide to go to a printed carton. We would be using our own printing of Aylmer, Del Monte on the carton, instead of a label. This would affect the specifications. Sometimes we find we can change the specifications, even within the corrugated medium which we might be using, which would change the price.

Variations also occur between products according to such items as the specifications for tinplate and lacquer for cans, jar shape for glass and board weight and printing for cases.

To gain a perspective of the relative proportion of the cost of containers and packing material to the total manufacturing cost (excluding selling and administrative expense) the percentage relationship is shown on Exhibit 4. The range over the past six years has been a minimum of 34.5% and a maximum of 36.5%.

On Exhibit 4 we have expressed the container and packaging material cost as a percentage of manufacturing costs rather than gross sales as we consider this a more meaningful comparison, and we hope the committee will agree.

(Topic No. 5)

Do you agree with the multiplicity of 'sizes and containers' of certain food commodities which appear on the retail market today and, in your opinion, what level of marketing is responsible for new sizes?

(Answer)

In most of the products we produce we are governed by size regulations laid down, product by product, in the fruit and vegetable regulations of the Canada Agricultural Standards Act. Whether or not we pack the maximum number of sizes allowed for a particular product under the regulations, depends on our analysis of consumer preferences as we try to respond to consumer needs. For products other than those regulated as to size we follow very closely the regulations of sizes except where a very strong consumer preference is registered. This does not happen too frequently.

The manufacturing, labelling and sale of all foods packed by our company is regulated by the following:

(a) Regulations of the Food and Drugs Act.
(b) The processed Fruit and Vegetable Regulations of the Canada Agricultural Products Standards Act.
(c) The Meat Inspection Regulations of the Meat Inspection Act.

The processed fruit and vegetable regulations, under which approximately 85 per cent of our products are packed, establishes grade requirements (Fancy, Choice, Standard, Sub-Standard), as well as the container sizes which may be used, as prescribed in the act.

The primary purpose of the various acts is for the protection of the Canadian consumer from fraud, health hazards and misleading labelling.

Under the Food and Drugs Act we are also governed by regulations in the selling and advertising of the foods we make. No food can be sold or advertised in a manner that is false, misleading or deceptive or likely to create an erroneous impression regarding its character, value, quantity, composition, merit or safety.

(Topic No. 6)

How do you determine that your sales prices are competitive?

(Answer)

There are numerous ways of determining if our sales prices are competitive. We employ a number of these ways on a continuing basis. These are listed below, but not necessarily in the order of importance.

(1) Feed back from the sales force to head office of all available competitive price information.
(2) Published regional competitive merchandising activities.
(3) Distributor reaction to our prices and offers. This comes quickly.
(4) Trade movement of our products.
(5) Retail price reporting service.
(6) Newspaper features.

It is a much greater problem to us to keep prices profitable than it is to keep them competitive.

(Topic No 7)

Generally, when pricing products for sale, do you employ fixed or percentage mark-ups or are the laws of supply and demand invoked?

(Answer)

We do not apply fixed or percentage mark-ups. With a primary concern of recovering cost, the law of supply and demand then determines if we can realize our moderate profit goals as well.

The law of supply and demand in the form of the competitive pressures that we are up against at all times is a forceful price regulator that in many cases will not allow us to reach the profit goals that we consider a reasonable return.

(Topic No. 8)

What is your sales policy respecting specialty items involving premiums, certificates redeemable by the consumer, cents-off deals, etc.?

(Answer)

We use premiums and certificates sparingly and feel that they can sometimes be helpful and efficient in certain situations, for example, to introduce new items, accelerating the movement in an over-supply situation and at times to combat competitive moves. We do not use cents-off on labels.

(Topic No. 9)

Show quotations of f.o.b. plant sales prices per unit of some of the principal products offered during selected weekly periods in 1965 and 1966.

(Answer)

To illustrate the changes that have taken place in 1965 and 1966 for prices quoted for canned fruits and vegetables, 12 examples are shown in Exhibit 5. The prices shown are those at which goods were sold around the 15th of each month from January 1965 up to and including October 1966.

We were asked to supply selected weekly prices, but these were not available. However, we think that this information will serve the purpose.

Exhibit 6 has been provided in this submission to show the price indices as published by the Dominion Bureau of Statistics for the fruit and vegetable preparation industry, consumer price index and selected average retail prices for Canada.

If you will turn to Exhibit 6, it can be observed that the food portion of the consumer price index has risen 5.0 per cent between July 1965, and July 1966 but that the canned fruit and vegetable segments of the food index have only risen 1.1 per cent and 3.7 per cent respectively.

You can see the consumer price index in the middle of the page. You see "All Items" first, with an increase of 3.4 per cent, and then you see Food, with an increase of 5 per cent. This is between July 1965 and July 1966.

The fruit and vegetables preparation industry selling price index for July 1966 has increased 3.6 per cent over July 1965 but has only increased 2.8 per cent over July 1964.

(*Topic No. 10*)

When volume sales orders are invoiced, is the billing net of all discounts or gross less discounts?

We found this topic a little difficult to understand.

(*Answer*)

We have one price regardless of the size of the order, and the billing is net of all discounts.

As I say, we found this topic a little difficult to understand. We have attempted, however, to give the information briefly, but I would like to add some comments verbally in addition to the submission itself.

We say here that we have one price regardless of the size of the order, and the billing is net of all discounts. In addition to that I would point out that we do offer a leaks and swells allowance of one-eighth of one per cent, and this is a deduction which appears on the invoice and is taken off when arriving at the net. In addition to that we have also a cash discount of $1\frac{1}{2}$ per cent for 15 days, which shows on the invoice but is deducted when arriving at the net.

(*Topic No. 11*)

Does your firm pack for wholesalers' or retailers' "private" label? If so, what volume percentage of some selected items were packed in this manner in comparable periods in 1965 and 1966?

(*Answer*)

Our "private" label sales only amount to $6\frac{1}{2}$ per cent of Canadian Canners business during both 1965 and 1966. Only a few items are supplied to wholesalers and retailers for their labels on a continuing basis. Many of our offerings are dependent on our supply position.

We are a national brand manufacturer but in view of the publicity given the "private" label aspect of the food business we would like to offer a few comments to this committee.

It is a fact that many private label purchasers change their suppliers from year to year and, under such conditions are not guaranteed a constant quality standard. While some private label purchasers are quality conscious, more often than not the private label distributor buys from the packer who offers the lowest price.

Private label suppliers generally are not innovators. They enter the market with new products only after substantial research and market development have already been accomplished by advertised brand merchandisers, and the product is already well known. Thus, many of the developments and advertising costs faced by the brand innovators do not accrue to the private labelled product. Accordingly, imitators of new products are able to sell to private label distributors at lower prices.

Isolated products have been cited by distributors before this committee to illustrate the difference in price between private label brands and manufacturers' brands. Some of these examples have shown considerable difference. A review of the current retail pricing of manufacturers' brands of canned fruits and vegetables versus the private label brands in the Toronto market indicates an average retail price differential, which is illustrated on page 18. These

differentials are substantially less than those existing on the products cited as examples to this committee.

These are shown on the following page:

TORONTO RETAIL SHELF PRICING

Quoted from a pricing service book for October 1966

	Chain A	Chain B	Chain C
15 oz. PEACHES, Choice Halves			
Private Label	27½¢	28½	
AYLMER	29½¢	27¢	
National Brand	29¢	28½¢	
15 oz. CORN, Choice Cream Style			
Private Label	16½¢	16½¢	
AYLMER	18½¢	...	
15 oz. PEAS, Fancy			
Private Label	20½¢		
DEL MONTE	22½¢		
Other National Brands	19½¢		
" " "	21½¢		
" " "	22½¢		
20 oz. PEAS, Choice			
Private Label	21½¢	21½¢	
AYLMER	23½¢	23½¢	
48 oz. TOMATO JUICE, Fancy			
Private Label	33⅓¢	37¢	35¢
AYLMER	39¢	37¢	35¢
Other National Brands	37¢	39¢	37¢
" " "	41¢	41¢	41¢
" " "	37¢	39¢	39¢
" " "	41¢	41¢	41¢

You can see the swing in that chart, where, for example, Aylmer Tomato Juice, Fancy, goes from 39 cents to 37 cents to 35 cents. We are looking at what is probably a two-cent differential.

Now, I repeat that these differentials are substantially less than those existing on the products cited as examples to this committee. The assurance of uniform, high-quality products together with the development of new products in response to consumer demands is, in our opinion, entirely justified as an element of production cost.

We would like to state a few facts about the development of the manufacturers' brands.

The story, briefly, is that manufacturers develop brands for their products as a quality guarantee on which they stake their reputation. This guarantee has been accepted by consumers, thus assuring a market of sufficient size to risk substantial investment in advertising and promotion, plants and equipment and raw produce commitments. Economies of mass production and distribution justified large research and development expenses that resulted in quality improvements, better strains and higher retention of food value.

We in the food industry pride ourselves in developing new products for the consumer. Innovation has materially contributed to our past success. It has been shown that it is the manufacturers of branded merchandise in most instances that have assumed the financial burdens of carrying on the extensive agricultural, scientific and market research necessary to develop new and improved products for the housewife.

(*Topic No. 12*)

Where applicable, detail the various manufacturing costs involved in processing an average ton of tomatoes into the resultant pack of tomato juice.

(*Answer*)

We believe that the relative value of the fresh tomatoes in the total cost of a pack of tomato juice may be understood by relating one dollar of raw product cost to the other expenses that are required to produce a finished product available for the distributor to market. For each $1 of tomatoes, that is used in tomato juice we must purchase containers that cost $1.60; we require labour to process, label, and warehouse, 19 cents; we provide facilities and maintain these at a cost of 35 cents; we experience selling expenses excluding freight and storage of 42 cents; we pay freight and storage on the finished goods of 26 cents; we require general administrative expenses of 19 cents. These expenses added by the company total $1.41, which when added to the $1.60 makes a total of $3.01 which must be added to the $1 of raw product, bringing the full cost to $4.01. This illustrates that the cost of bringing the consumer a food in a convenient and readily usable form at all times of the year involves considerably more than the bare raw produce used.

(*Topic No. 13*)

Select ten major commodities manufactured by your firm and allocate production, warehousing and sales costs such as containers and packaging materials, raw materials, wages, advertising, direct and co-operative, etc. to each.

(*Answer*)

The percentage relationships of the various cost components to total cost have been shown for eleven major commodities in Exhibit 7.

If you turn to Exhibit 7 on page 28 of our brief you will see a breakdown percentagewise for 11 of our products. In each case the total cost, of course, appears as 100. Let us take the first item which is 15-ounce peaches, choice halves.

	24/15 oz. Peaches Cho. Hvs.
Cost of Manufacture	
Raw Product	33.7%
Other Direct Materials	5.1
	38.8
Containers—Cans	17.9
Corrugated Cases	1.9
Labels	1.5
	21.3
Wages—Processing	9.8
—Labelling & Casing	1.5
Warehousing & Shipping	0.3
	11.6
Repairs and Maintenance	2.6
General Overhead	7.0
Depreciation	1.2
	10.8
Total (before selling)	82.5
Selling Expense	
Cash Discount	1.4
Advertising & Promotion	3.9
Volume Incentive	1.0
Brokerage and Field Sales	2.6
Selling Admin.	1.2
Freight & Storage	2.6
	12.7
Gen. Admin. Expense (Incl. Interest)	4.8
TOTAL COST	100.0

If you would like to take a look at the eighth item on that page, 20-ounce tomato juice fancy, you will see how this compares.

	24/20 oz. Tom. Jce. Fancy
Cost of Manufacture	
Raw Product	24.8
Other Direct Materials	0.1
	24.9
Containers—Cans	33.7
Corrugated Cases	3.5
Labels	2.6
	39.8
Wages—Processing	2.2
—Labelling & Casing	2.0
Warehousing & Shipping	0.6
	4.8
Repairs and Maintenance	2.1
General Overhead	5.3
Depreciation	1.4
	8.8
Total	78.3
Selling Expense	
Cash Discount	1.4
Advertising & Promotion	3.9
Volume Incentive	1.5
Brokerage and Field Sales	2.5
Selling Admin.	1.2
Freight & Storage	6.5
	17.0
Gen. Admin. Expense (Incl. Interest)	4.7
TOTAL COST	100.0

You will notice that under "Wages—Processing" the figure is 2.2 as compared with 9.8 for peaches. This is accounted for by the fact that there is more direct labour involved in the peeling of peaches, etc.

Now to mention the other items in this exhibit we have 15-ounce peaches choice halves, 15-ounce Bartlett pears choice halves, 20-ounce cream style corn choice, 20-ounce peas choice, 15-ounce peas choice, 10-ounce tomato soup, 28-ounce whole tomatoes choice, 20-ounce tomato juice fancy, 11-ounce catsup, 15-ounce Boston baked beans with pork in tomato sauce, and two-pound pure strawberry jam.

These we think are products which will give the information you have asked for.

In Exhibit 8 some comparative labour rates per hour are shown to illustrate the trend since 1960. It can be observed that no significant changes were made in the seasonal rates until 1965 and 1966. I think it is important to mention this at this point; the big changes took place at that time. Wages in the cannery are having to keep pace with the generally increasing level of wages in the community in order to attract full-time and seasonal labour and most importantly to enable the company to retain and satisfy in a monetary sense the trained and skilled employees presently on the staff.

In concluding this submission we would like to emphasize some of the important facts that have been included:

(1) The increase during the last year in the consumer price index for canned fruits and canned vegetables is less than the increase for all food items. This is shown in Exhibit 6, page 27, of our submission.

(2) The proportion of personal disposable income spent on food at the retail level has declined from 24 per cent during the period 1949 to 1953 to 20 per cent in 1965. This was reported by Mr. S. B. Williams, Assistant Deputy Minister, Department of Agriculture, to this committee at the meeting held on October 4.

(3) Very strong competitive conditions exist in the fruit and vegetable canning industry in the price area.

(4) The earnings of fruit and vegetable canners are traditionally at low levels compared to average earnings for manufacturers.

(5) Increases in the productivity of the canning industry have not been sufficient within the last year to absorb the increases in prices of raw produce and direct materials, labour rates, interest rates, fringe benefits and property taxes.

(6) Consumers today are demanding and being provided with more variety and convenience foods than ever before.

The purpose of the fruit and vegetable canning industry is to make farm produce available to consumers on a year-round basis. The problems of this industry are unique in many ways and efficient management is necessary to deliver the food from the farm to the table at a cost that will be acceptable to the consumer and provide an adequate return on the investment required to carry out this important function.

Lady and Gentlemen, Mr. Chairman, this concludes the formal part of our submission to the joint committee.

The chairman has already introduced the two gentlemen from our company who are here with me today. I would just like to take the opportunity to introduce them again. On my immediate left is Mr. W. G. Lister, Manager of Accounting; and next to him is Mr. R. M. Mapp, Vice-President of Marketing.

We will be pleased, Mr. Chairman and members of the committee, to attempt to answer any questions anybody may wish to direct to us. Thank you.

Co-Chairman Mr. BASFORD: Thank you very much, Mr. Johnston and your company, for a very full and comprehensive brief. The first person I have on my list is Mr. Urie—unless you want a minute to catch your breath, Mr. Johnston?

Mr. JOHNSTON: No, I am ready, sir.

Mr. Urie: Mr. Johnston, the control of your company is held by the California Packing Corporation, I understand, in San Francisco—is that right?

Mr. Johnston: Yes, two-thirds control.

Mr. Urie: The rest of the shares are pretty well held by Canadians and widely diversified?

Mr. Johnston: Approximately 3,500 Canadian shareholders.

Mr. Urie: According to your financial statement, you have five subsidiary companies?

Mr. Johnston: That is right.

Mr. Urie: I would just like to review with you, very briefly, those companies and the activities in which they are engaged, and what portion of your total sales volume and profits are represented by sales and profits which have been derived from those subsidiaries.

First, Aylmer Foods Warehousing Limited.

Mr. Johnston: Aylmer Foods Warehousing Limited is a warehouse and distributing organization operating out of Rexdale, Toronto. This is a warehouse which we built approximately five years ago in order to give service to the trade. The profits on Aylmer Foods Warehousing represent a very minor amount.

Mr. Urie: Do you have those figures with you, sir?

Mr. Johnston: It is in the area of $10,000.

Mr. Urie: What is the relationship between your company and that company?

Mr. Johnston: It is a wholly-owned subsidiary.

Mr. Urie: How are the operations of the two companies inter-related?

Mr. Johnston: Our goods are shipped from our factories as produced and moved into that warehouse for storage. It is our largest warehouse so far as storage is concerned, and as orders are received from customers they are shipped from this consolidated warehouse. It is a consolidation warehouse, mainly—which I think should be stressed

Mr. Urie: And Canadian Canners pay a storage fee or rent, or whatever it may be, to Aylmer Foods Warehousing which, in turn, contributes its share of profits to the total profit picture?

Mr. Johnston: It is strictly an inter-company situation.

Mr. Urie: What about Boese Foods?

Mr. Johnston: Boese Foods is a fruit processing company which we acquired in 1964, in the spring of 1964. They process fruit products in the Niagara peninsula, with a plant at St. Catharines.

Mr. Urie: What is their total sales?

Mr. Johnston: I am afraid I do not have them with me. I cannot give you them accurately.

Mr. Urie: Could you provide that information?

Mr. Johnston: Yes, that can be provided. I prefer not to guess, because we have not that information with us. We have thought in terms of just bringing the point out of our canning operation, including it all together. It is a wholly-owned subsidiary and is part of the total operation.

Mr. Urie: What is the purpose of retaining it as a separate entity?

Mr. Johnston: For administrative purposes mainly. It has been easier for us to operate it with a separate board of directors, and not combine it entirely into our own operation.

Mr. Urie: In what way is it easier, Mr. Johnston?

Mr. JOHNSTON: Well,—.

Mr. URIE: May I ask you a different question then? Does the fact it remains in existence add anything to the cost of the products which are sold to the ultimate consumer?

Mr. JOHNSTON: No. Probably the most important consideration comes from the marketing side. This company does have an accepted label of its own, which is the Henley brand, and by keeping its identity as such this does give us another label distribution.

Mr. URIE: But you do not feel the fact it is retained in the separate corporate entity adds materially, if anything, to the cost of the product to the ultimate consumer?

Mr. JOHNSTON: No, definitely not.

Mr. URIE: What about Wagstaffe Limited, is that the same situation there?

Mr. JOHNSTON: No, not necessarily Wagstaffe is a jam, jellies and peel plant located in Hamilton, which was acquired by Canadian Canners in the twenties, and is operated as a separate company, again mainly for distribution purposes. It has a different product group than canned fruits and vegetables, and it has certainly been our opinion over the years that this has been the best way to operate that organization.

Mr. URIE: Have you the figures for gross sales, earnings, etcetera, for this company with you for the period—

Mr. JOHNSTON: I do not have them here, but we can provide them.

Mr. URIE: Can you provide them for the same period shown in your financial statement, 1962-1966?

Mr. JOHNSTON: Yes.

Mr. URIE: What about Walmer Transport?

Mr. JOHNSTON: That is a transport company which was organized in 1939. We use Walmer Transport, where possible, in the distribution of our own goods, and approximately 50 per cent of their business is the transport of our products from our plants to warehouses, and in distribution to our customers.

Mr. URIE: The other 50 per cent are those carried by common carriers?

Mr. JOHNSTON: That is the outside transport business.

Mr. URIE: Do you have figures available with you today for its operations?

Mr. JOHNSTON: I do not, but we would be pleased to provide them.

Mr. URIE: For the period 1962-66. The only other one is Canners Machinery Limited.

Mr. JOHNSTON: That is a machine shop and brokerage operation which operates out of Simcoe, Ontario, and has been operated as a subsidiary of Canadian Canners since the 1920's.

Mr. URIE: What is its function?

Mr. JOHNSTON: Its function, through a machine shop, is to manufacture and assemble equipment for the food industry, primarily. In addition to that, they do have brokerage agreements with Canadian and United States companies in which finished material is imported into the country and distributed.

Mr. URIE: Do you mean, finished machinery and equipment used by all canners in the country?

Mr. JOHNSTON: Not just canners. Canners Machinery business is not confined strictly to canners.

Mr. URIE: There again, you do not have those figures?

Mr. JOHNSTON: No, I do not.

Mr. URIE: But you will provide them?

Mr. JOHNSTON: Yes.

Mr. URIE: Do you have interests in any other subsidiaries where they are not wholly owned?

Mr. JOHNSTON: No, sir.

Mr. URIE: Do you have any interest in any primary producers of any kind?

Mr. JOHNSTON: No, sir.

Mr. URIE: Say, suppliers of raw materials you use in your business? How do you purchase the raw materials—by contract with the farmers?

Mr. JOHNSTON: The majority is certainly purchased by contract. There may be some exceptions to that. You are talking of the raw produce?

Mr. URIE: Yes. Is it supplied by the farmers?

Mr. JOHNSTON: Yes, 100 per cent.

Mr. ALLMAND: A supplementary, Mr. Chairman. You said you did not have any interest in primary producers. On page 7 you say that you have invested heavily in harvesting equipment over the last few years. Why do you do that?

Mr. JOHNSTON: We own harvesting equipment because we provide harvesting for the growers. We make contracts. Take, for example, peas. We would contract with a grower for him to grow so many acres of peas. We buy these harvesters, and when harvesting time comes around we go into his fields and harvest the crop for him, but, we pick up the cost of harvesting. We are buying peas from him on a field basis.

Mr. MCCUTCHEON: I have a supplementary question, Mr. Chairman. How many farms do you own, Mr. Johnston?

Mr. JOHNSTON: As far as individual farms are concerned, quite a few actually. They are spread out.

Mr. MCCUTCHEON: Then, it is not a little misleading for you to tell this committee that you get all of your primary products on the market? You are growing them yourself, are you not?

Mr. JOHNSTON: No, only a small proportion. We do have some land holdings which we are farming, but they comprise a small proportion of the lands which are used to produce for us.

Mr. URIE: How many farms do you have, Mr. Johnston, and how many acres do they comprise?

Mr. JOHNSTON: We would be pleased to provide that information. I do not have that information in front of me here.

Mr. URIE: Roughly speaking, how much of the total produce that you purchase is produced on your own farms?

Mr. JOHNSTON: I do not think I could answer that today. It would vary by products. We would be pleased to give it, but it is certainly a small proportion of our total.

Mr. URIE: Is it ten percent or fifteen percent, roughly speaking? Your answer will be subject to correction when you get the exact figures.

Mr. JOHNSTON: I would guess at this point it is in excess of ten percent.

Mr. URIE: Does it cover all types of produce or just tomatoes and peaches, of what?

Mr. JOHNSTON: Asparagus is probably the main one. We grow a substantial proportion of our asparagus on farms that we do own. We have brought in our own roots and plants, and have developed them.

Mr. URIE: Are these farms in Ontario?

Mr. JOHNSTON: All the asparagus farms are in Ontario. All of our farms are in Ontario.

Mr. URIE: I would like you to take a look at your financial statement with which you have been good enough to furnish us. I think all of the members of the committee have a copy. It shows, I presume, your gross sales for the period from 1962 to 1966, and they have increased from $39 million to $50 million, in round figures. I think that that is roughly a 30 percent increase.

During the same period your net profits have increased from $420,000 to $2,150,000, in round figures, which is about a 400 percent increase.

It seems to me that you have pointed out during the course of your very comprehensive brief that your costs have increased in such areas as storage, financing, seasonality, labour, and all of the various items that you set out in your brief. With those substantial increases in costs how do you account for such a tremendous increase in your net profits of 400 percent when you had an increase in your gross sales of only 30 percent?

Mr. JOHNSTON: That certainly is a complex question. I think I would like to start my commentary there by pointing out that the profit situation for the first three years that are reported in our submission was at a very low level. Certain things had to be done within our company in order to get our earnings to a satisfactory level. We had a program of plant consolidation which we carried out. This was necessary in order to be able to install some of the automation that was required within our plant facilities in order to achieve lower costs. This was done and completed by 1963, in order to give us this better picture.

We certainly did have the sales volume going up each year. I think the figures show that there was an 8 percent increase in 1964. We were able to get this sales increase without substantial increases in our overhead. With our earnings as low as they were, and as unsatisfactory as they were, for those first three years that you see here, we did have a very definite program going on within our operation right across the board in plant, field sales, sales, and head office, in order to streamline some of our overheads, and we had reasonable success in that area.

Mr. URIE: During the same period of time—

Co-Chairman Mr. BASFORD: Just a minute. Had you finished, Mr. Johnston?

Mr. JOHNSTON: Yes, go ahead.

Mr. URIE: During the same period of time, Mr. Johnston, your funded debt declined by about $1,200,000—that is, from 1962 to 1965—and your retained earnings increased from $17 million to $23 million. You had an increase in fixed assets of something in the neighbourhood of 27 or 28 percent. At the same time you were able to substantially and markedly increase your net profits. Was this all done through economies, and solely through economies?

Mr. JOHNSTON: It was certainly one of the main contributors.

Mr. URIE: You have shown—

Mr. JOHNSTON: What we are saying—may I stress this again to the committee? —is that we did not make satisfactory earnings in the first three years, and in the last three years we have got the earnings to a level which we think is still low but which is much better than what it was before. This has been done mainly through efficiency and improvements throughout the company.

Mr. URIE: Would any portion of it be due to increases in the prices of your goods to your customers—increases which, in part at least, account for the fact that it was found necessary to constitute this committee to investigate food prices in this country?

Mr. JOHNSTON: I think there is probably some evidence of that in the picture, but not in a major way. During this period we concentrated on the

items which were better profit producers. In the submission you will recall I did refer to the fact that there are some items which are always profit producers, and some which are not, in the whole picture. In looking at the picture at that time we looked at some of the products which we know produce profits, and some that produced limited profits. There was not any definite increase in prices at that time. Competition in this industry just does not permit you to do that.

Mr. URIE: In that connection what share of the market do you have in the products you sell?

Mr. JOHNSTON: Could you name a specific product? We have a very full line and—

Mr. URIE: Take canned fruits and vegetables, for example. What share of the total market do you think you have in respect of them?

Mr. JOHNSTON: Canned fruits as a complete line?

Mr. URIE: If you want to break it down into individual items, then please do so.

Mr. JOHNSTON: I prefer to leave it on a complete line basis. The concensus would be 20 to 30 per cent. I think it is more likely 25 per cent.

Mr. URIE: In some particular product you would have a greater than 20 per cent share of the market, and in other products your share would be a smaller percentage?

Mr. JOHNSTON: Yes.

Mr. URIE: What is the one product that produces the greatest sales volume for you, and from which you have the greatest portion of the market?

Mr. JOHNSTON: In canned fruits?

Mr. URIE: Yes.

Mr. JOHNSTON: Peaches.

Mr. URIE: What about vegetables?

Mr. JOHNSTON: Our biggest vegetable item would be peas.

Mr. URIE: What percentage of the market in peas do you have?

Mr. JOHNSTON: Mr. Mapp has just mentioned, to make sure, that so far as vegetables are concerned, tomato products as a complete line would be larger than peas. But, I was thinking of an individual item such as canned peas or canned peeled tomatoes. Just to make it straight for the record, as an individual item canned peas is greater than any one individual item of tomatoes. But if we are talking about tomato products, then as a vegetable product line it is the biggest.

Mr. URIE: What percentage of the market does your tomato products line hold?

Mr. JOHNSTON: We do not have that information. That is difficult to get. We are substantial in it, but we would be only guessing.

Mr. URIE: Would the same be true of peas?

Mr. JOHNSTON: Yes, to some extent, although we have some information on peas because we do use a marketing service to give us some idea of our share of the market.

Mr. URIE: To leave that subject for a moment, I notice in your exhibit 1 that you say your net profit as a percentage on gross sales in 1966 was 4 per cent, and as a percentage on return of shareholders' equity, 7.3 per cent. How did you determine what the shareholders' equity was? You are very familar with the difficulty of determining what shareholders' equity is in any given instance. In this particular instance, what is the base you use?

Mr. JOHNSTON: The base is shown in our annual report, February 28, 1966, and is spelt out on that particular statement as shareholders' equity, which includes the capital stock and retained earnings.

Mr. URIE: Thank you. The reason I asked the question is that we have had some people in here who included such things as capitalization of their rentals and long term leases, and so on. However, you have spelt out shareholders' equity in your balance sheet.

Now, as a subsidiary of California Packing Corporation, how do your net profits as a percentage of gross sales and your net profits as a percentage of shareholders' equity compare.

Mr. JOHNSTON: Ours are lower. I do not have the figures here with me today. If it is the wish of the committee that they be handed in, we shall be pleased to do so. The only report we have shows that ours was certainly lower.

Co-Chairman Mr. BASFORD: Senator O'Leary?

Senator O'LEARY (*Antigonish-Guysborough*): I should first like to ask Mr. Johnston a supplementary to two supplementary questions, which have already been asked with respect to your costs of harvesting equipment, with the acknowledge that you own and operate farms for which you buy harvesting equipment. Then I believe you indicated that you supply harvesting equipment to some of those with whom you contract. How do you charge up this equipment to them, or where is it shown?

Mr. JOHNSTON: We do not charge it to them. I am subject to correction, but my understanding is that this is not charged to them. What we do is contract for this equipment in the field. We go in with our own harvesting equipment and harvest, and this becomes our cost. So this is a cost of ours. Just to make sure that there is clarification, perhaps I should ask Mr. Lister to make a comment or two on this.

W. G. Lister, Manager of Accounting, Canadian Canners Limited: In some of the contracts with growers there is an arrangement for a charge of so much per ton or acre for harvesting of their crops.

Senator O'LEARY (*Antigonish-Guysborough*): And you credit this again as a deduction against the cost of your goods landed?

Mr. JOHNSTON: In other words, it is part of the contract arrangement cost.

Mr. URIE: Mr. Chairman, I have a supplementary. Will you be good enough to supply to the committee a sample actual contract, or two or three of them if they vary in type?

Mr. JOHNSTON: Very pleased.

Senator O'LEARY (*Antigonish-Guysborough*): On page 19 where you use tomato juice as an example of the cost of the ingredient versus the cost of the container and processing operation, this represents, I believe, a three to one proportion of the cost of your containers and processing operations over the cost of the ingredient. Now, I can understand that quite easily, and you have explained it well, but you have referred to it as the cost to the consumer. What I just want to suggest is that you are only one of those who have this proportion represented as a cost to the consumer. Then we must add, of course, to the cost to the consumer the wholesalers and retailers distributive costs. I just mention that. In the Maritime provinces, for example, would you give us an approximate proportion of your over all Canadian volume sold there in fruits and vegetables? I will say Atlantic or Maritime provinces, whichever you wish to take.

Mr. JOHNSTON: I am afraid we do not have any regional breakdown of sales figures here, but we would be glad to supply the information to the committee. I would have to guess at it; it would only be a guess.

Senator O'LEARY (*Antigonish-Guysborough*): It may not be necessary, because I am going to ask a couple more questions in this respect. You do not have available regional sales volume figures, but would you have an approximate idea of regional sales distribution costs? I could phrase that another way and ask if your distribution costs to the Atlantic or Maritime provinces are excessively high by comparison with elsewhere in Canada?

Mr. JOHNSTON: Your question is are they higher, excessively high? Certainly they are higher, there is no question about that. We are going longer distances. There are some situations where you get into agreed freight rates, and one thing and another. But this does not apply there, does it, Mr. Mapp? Do you have any comment on that?

R. M. Mapp, Vice-President Marketing, Canadian Canners Limited: The distribution cost expenses to the Maritimes are possibly not as high as they are to some other areas in Western Canada. They are not excessively high, they are not as high as they are possibly in some other areas of Canada.

Senator O'LEARY (*Antigonish-Guysborough*): Therefore your net profit, let us say on your merchandise sold in the Maritime provinces, is sufficient to keep you in business there—you would not want to withdraw from the Maritime provinces, and you do not hold any monopoly in fruit and vegetables there, do you?

Mr. MAPP: No, sir, we do not.

Senator O'LEARY (*Antigonish-Guysborough*): Thank you. In Exhibit 1, in the matter of interest expense, the figure given for 1965-66 is $487,000, and you made a reference on another page to the present increasing interest cost. Is this figure going to be up appreciably next year in view of present interest rates?

Mr. JOHNSTON: It will be up considerably.

Co-Chairman Mr. BASFORD: I have a supplementary. Is this short term financing from the bank or on the market?

Mr. JOHNSTON: We use both. It is mainly bank, but short term money is available on the market to us on a thirty-day basis, and we do use it.

Senator O'LEARY (*Antigonish-Guysborough*): Have you reached your fall term peak period?

Mr. JOHNSTON: No. Our peak is usually reached in December.

Senator O'LEARY: In regard to advertising expenditures, Exhibit 2, I note that in the years 1964-65 and 1965-66, you have no regional television figures. You completely dropped television

Mr. JOHNSTON: I could answer that question, sir, but I would rather Mr. Mapp answered it.

Mr. MAPP: We dropped regional television for a period of time and we have only used it sparingly and in limited areas. We have no continuous program for the use of television. In those particular two years we did not use it at all.

Senator O'LEARY: You apparently have not used it since 1964, according to this?

Mr. MAPP: That is correct, yes. I would like to qualify that. We have television going right now but it would not show in these particular figures.

Senator O'LEARY: On the other hand, with respect to regional radio, in your last year, as compared to the previous year, I note that you have an increase from $66,000 approximately to $113,000. Is there a particular reason for this large increase in radio advertising, as being more beneficial to you?

Mr. MAPP: It would be specifically in regions, as indicated here, regional advertising, and in support of certain individual promotions, tied in specifically

with heavy inventories and also attempting to build a consumer market in a certain area.

Senator O'LEARY: I suppose the same answer would explain the continuing co-operative advertising rise that you have had here in your costs, with the exception of the years 1962-63. You had a continuing cost going up to $778,000. I suppose the statement made in the brief on page 10 would bear this out. You feel that the most effective advertising for your products is informative, service advertising. Then you went on to say:

> Our advertising has tried, first to direct itself to the personal values that motivate people—

Would these two items, co-operative advertising and the regional radio advertising, be the two most important factors in helping you achieve the objective that you have pointed out there? You believe that these two are the most effective media?

Mr. MAPP: First, the increase in the co-operative advertising is tied in specifically, practically altogether, with volume.

As far as radio is concerned, if I understand your question, sir, the two combined are to develop and to move specific inventories and to strengthen our position, if we can, in a certain market.

Senator O'LEARY: Perhaps this question is not relevant. The fact that you increase your regional radio advertising by approximately $47,000 and you eliminate your television, which in its last year was $58,000 approximately, would account for the greater increase in your radio advertising

Mr. MAPP: Yes, sir.

Co-Chairman Senator CROLL: In looking at Exhibit 2 and your balance sheet, I note that you say in Exhibit 2 that you have spent less money on advertising and completely excluded television, yet according to the balance sheet you have done more business.

Mr. JOHNSTON: I think, senator, you may not be picking up the increase in magazine and newspaper advertising. We changed our program in 1965, from spending some money on television and radio, and devoted a lot of those funds to national advertising in magazines and newspapers.

Co-Chairman Senator CROLL: But you have spent $2 million-odd in 1964-65 and you are spending $1.8 million in 1966. Some variations appeal—you are down on national newspapers, up on regional radio, down on regional newspapers. You are down on regional television—you have told us that you gave that up completely in that year. You are down on "other advertising". Foreign advertising has remained about the same. You are up on co-operative advertising, which is something that others pay for. The total for advertising has been reduced by a couple of hundred thousand dollars. At the same time, you have done more business. How do you explain that?

Mr. JOHNSTON: I think the explanation is that the budget as presented each year has to stand on its merits. Specifically, as to why we would be down in the 1966 fiscal year as against 1965, it occurs to me the answer is that we did have some extra advertising in 1964-65 regarding some new drink products which were introduced in that year Without having the specific details here, I think the main difference between the two years is in that area of the introduction of the new product.

The Co-Chairman Senator CROLL: Mr. Johnston, if you look at your financial statements, you will see that in the year 1963-64, the earnings were $1,781,000. the net sales in 1963-64 were $43 million and in 1966, $50 million. It has become even larger. The only reason I ask the question is because everyone else has been telling us otherwise. They tell us that they must advertise more and more

in order to be able to get the business, but you seem to be able to get the business with less advertising.

The Co-Chairman Mr. BASFORD: A smart company?

Mr. URIE: I notice in Exhibit 1 that the Volume Incentive of Selling Expense increased from $314,000 to $685,000. I presume that is due to transferring some portion of your promotion to your customers? You provide them with the incentive to sell your products, and increase your costs. At the same time, your sales have increased at an even faster rate. Would that be the answer, in part, to the previous question?

Mr. JOHNSTON: In part. As far as the volume is concerned, we do have a volume incentive plan, which is made known to all customers and made available to all customers, on the same rate across the board.

Mr. URIE: Is this part of your promotion to the individual company, volume incentive, while reducing your expenditures?

Mr. JOHNSTON: Yes, more for the money spent.

Mr SMITH: The Del Monte products in the United States are fairly heavily advertised on United States television, are they not?

Mr. JOHNSTON: Sometimes they are. They are variable. During the past twelve months they have done heavy advertising.

Mr. SMITH: There are several million television listeners who have access to American television stations?

Mr. JOHNSTON: Yes, in some areas of the country.

Mr. SMITH: So, in a sense, perhaps the Del Monte advertising leaves the Canadian company as a coat-tail rider?

Mr. JOHNSTON: I can only say, sir, that you are entirely correct. We do have some spillover from the advertising done by Del Monte in the United States.

The Co-Chairman Senator CROLL: That has been going on as long as I can remember.

Mr. SMITH: Del Monte was not always jointly owned.

Senator CARTER: My question may have been answered already. I wish to inquire about the great drop in regional paper advertising, from $224,678 in 1960-61 to $18,405 in 1961-62. At the same time, national magazine advertising dropped $100,000. I wonder what factor induced you to make that change?

Mr. JOHNSTON: Back in 1961-62?

Senator CARTER: Yes. You went from $224,000 right down to $18,000 in regional newspapers, and in national newspapers you went down $100,000 also from $358,000 to $256,000, which is a pretty big drop in newspaper advertising expense.

What came over you in that period?

Mr. JOHNSTON: I would say that the results of our profits from that point on indicated that we were not doing the right thing. However, I cannot tell you specifically at this point what we were doing. You are getting back quite a way, and what our program was I do not know.

It does not look as if it was the right thing at that time, because, after that, when we started to spend more money in the regional newspapers, things improved.

The Co-Chairman Mr. BASFORD: We will hear from Senator Inman.

Senator INMAN: Mr. Chairman, I would like to ask Mr. Johnston a question. He mentioned earlier in his brief that the costs of producing had gone up. I was rather interested in hearing you say that one reason for this was that you had upped the quality of your produce.

For over 50 years I have been buying canned goods and things of that nature, and I am just wondering if your products are up to as good a quality as in former years.

Mr. JOHNSTON: You say that you are wondering if our products are as good?

Senator INMAN: Yes. You said that one thing that contributed to the cost was that you had to better the quality of your products. Were they not as good formerly?

Mr. JOHNSTON: I think, Senator Inman, that there may be a wrong impression here that we can correct. I am sure that you have got the wrong impression. What we are talking about there is that we are constantly aware of trying to develop new strains of seeds and raw produce which will produce a better product, and we think our company is on top of this and ahead of the industry on this type of development.

We are talking about developing better quality seed which will produce better quality produce and which will produce better quality products in the can.

Senator INMAN: Thank you. Then you say that research has contributed also to the cost. What did you find in your research? What helped you in that area? We all know that research costs money.

Mr. JOHNSTON: We are really into three areas of research, and to say, specifically, what we found is a rather difficult problem to table. Referring to agricultural research, what we have found there in many situations is an improved seed which has helped us to produce a better product, both as produce and in the can. We have also done considerable research and are continuing to do so in the area of the handling of waste materials from the plants.

We are also doing certain research at all times within the processing lines of the plants. We do market research, which is another area, and what we find out through that is certainly what our share of the market is and what we should be doing to get a better acceptance and distribution of our products.

Research is a very broad field and we are spending money in all three of these areas.

Senator INMAN: And this all adds to the cost, of course.

Mr. JOHNSTON: It does. We think they are very necessary costs and we cannot go ahead without continuing to carry on programs in these areas.

Senator INMAN: On page 15 you mentioned white beans. What kind of beans do you mean? Are those wax beans?

Mr. JOHNSTON: No, white beans are produced for pork and beans products or for baked beans.

Senator INMAN: Now, you say another thing that contributed to the cost was the carton specifications. Why did you change them, if doing so increased the cost? Were the cartons you used formerly not all right?

Mr. JOHNSTON: We got involved in two things there, and I believe I referred to both of them in my remarks. For most of our products today we are using what we call a printed carton, which has "Aylmer" or "Del Monte" right on the side of the carton. This we think gives us some advertising advantage, and there is only a minor cost involved there by having that printing on instead of using a plain carton and stamping label on the end of it.

In addition to that you get an increase in the strength of the board which is used in the carton. It may be that we can cut back on that or that we will have to increase the strength of the board, depending on the damage reports on the products.

We are constantly conscious of this factor and we are working with the manufacturers to keep that cost under control. They do the research in that field and we work with them.

This is why you can get changes in the line of board that is used.

Senator INMAN: For a good many years you have been using the same labels.

Mr. JOHNSTON: Yes?

Senator INMAN: It happens that part of my family was in the grocery business, so that I realize that you have been using the same labels for quite a few years.

Mr. JOHNSTON: Do you mean the same carton?

Senator INMAN: No, the same label.

Mr. JOHNSTON: Aylmer?

Senator INMAN: Yes. For quite a few years.

Mr. JOHNSTON: Three years ago we went into a very extensive program to change our label. Now, perhaps I missed a point that I should have covered when answering an earlier question by Mr. Urie, but we feel that this change very definitely contributed to the improvement we saw three years ago. We did a complete redesign of our Aylmr labels. I think we did an excellent job on our Aylmer red brand labels, and I believe they are doing the job on the shelves across the country and are effective in our advertising.

Before that time, our labels were certainly a complete mixture. We had no family image. On our labels today we have. Mr. Mapp was very definitely involved in that program and he may even want to add some comment on that point. You hit a point there that I am sorry I missed before.

Senator INMAN: Well, as far as I am concerned the change in the label would not make any difference to me, and I think that a great many housewives would feel the same way. If it is going to add to the cost, why change it? On another point, which products are not producers of income for you?

Mr. JOHNSTON: This can vary. Do you wish this in a general way or at a specific time or what, senator? In one season it can be one product and in the next year it can be different.

Senator INMAN: I will give you a little compliment. I have been using Del Monte products for a great many years and they are excellent.

The Co-Chairman Mr. BASFORD: There is one solid customer.

Mr. JOHNSTON: I would like you now to say the same thing about Aylmer.

The Co-Chairman Mr. BASFORD: You had better stop while you are up.

Senator INMAN: The reason I have been using Del Monte is that I am not so fond of some of the Aylmer products.

Mr. JOHNSTON: I should have stopped when I was ahead. Thank you, Senator Inman.

The Co-Chairman Mr. BASFORD: Have you concluded, senator?

Senator INMAN: Yes, thank you.

The Co-Chairman Mr. BASFORD: Mr. McCutcheon.

Mr. MCCUTCHEON: Thank you, Mr. Basford. Mr. Johnston, you have told us who the principals are who own Canadian Canners. Is there any other food processing organization in Canada that is controlled by the California Packing Corporation?

Mr. JOHNSTON: No. None, sir.

Mr. MCCUTCHEON: Fine.

Mr. JOHNSTON: To the best of my knowledge, that is. I am not a director of the California Packing Corporation, but I think I am in a position to say that there are none.

Mr. McCUTCHEON: During the years following the merger, you have consolidated much of your operation, I am told. How many canneries have you closed down and taken over since 1959-60?

Mr. SMITH: Since 1956, say.

Mr. McCUTCHEON: Yes, in the last 10 years.

Mr. JOHNSTON: How many have we closed down since the California Packing Corporation acquired the controlling interest in our company in 1956?

Mr. McCUTCHEON: Yes.

Mr. JOHNSTON: In 1956 we had, and I quote from memory, 45 operating plants on a national basis. Today we have 14, and we have opened no new plants. I think by a simple matter of deduction that it is approximately 30 plants. Now, just so everybody is clear on this point, I must say that many of these were very small plants producing a very limited amount of product.

Mr. McCUTCHEON: In the takeover at that time was it more than just Canadian Canner outlets that were purchased and shut down.

Mr. JOHNSTON: Are you talking about the California Packing acquisition?

Mr. McCUTCHEON: Yes.

Mr. JOHNSTON: It was only involved with Canadian Canners operations.

Mr. SMITH: I have a supplementary, Mr. Chairman. Since 1956, have Aylmer or California Packing purchased any other packing operations or canning operations in Canada and closed them down.

Mr. JOHNSTON: No, sir.

Mr. SMITH: None since that time?

Mr. JOHNSTON: None.

Mr. SMITH: There was only the original purchase?

Mr. JOHNSTON: Right.

Mr. McCUTCHEON: Now with your 14 remaining facilities you are doing considerably more business than was transacted before, and much more efficiently I take it, or you would not have done it.

Mr. JOHNSTON: Exactly.

Mr. McCUTCHEON: To what extent are your plants operating at complete capacity?

Mr. JOHNSTON: That is a very broad question. I would like to attempt to answer it in a broad way. We are operating some plants for some products at capacity. There are other plants which we are not operating at capacity. This will vary with the plant and with the product. It is just one thing you cannot pin down. We have some situations where we are close to capacity and are going to have to do something in order to expand, to increase.

Mr. McCUTCHEON: An increase in capacity—would it tend to a lower unit price for your product, for example—better utilization?

Mr. JOHNSTON: Sometimes it will and sometimes it won't. Some of these things are forced on the company because of the labour situation. In other cases we make changes to increase capacity, it may be a change in machinery which will speed up operations or some other change to increase efficiency.

Mr. McCUTCHEON: On page 7 of your brief you say, "In Ontario, for instance, the prices for asparagus and most tender fruits are set by the respective Provincial Marketing Boards, with a minimum of discussion with processors." Now is this why you own your own asparagus producing farms?

Mr. JOHNSTON: No, not really. As far as asparagus is concerned, we do not have a produce man with us today. Maybe we should have had him with us to answer this question. But I will give my best information on it. I could say that the growers were not desirous of replanting asparagus and apparently are not doing it today. What is happening is that what is coming from individual growers is deteriorating. We feel that asparagus is a produce which we can pack and which can be a definite contributor to our operation, and the only way we could see to have the raw produce available was to go out and buy farmlands and plant it ourselves. Also we had some strains, for example, asparagus roots, which we wanted to keep under our own control for our own use. We needed to have our own land to do that.

Mr. McCUTCHEON: Would you care to elaborate on the last part of that sentence—"with a minimum of discussion with processors." Are you inferring that the farmers in Ontario are so unionized that they can tell you what they want?

Mr. JOHNSTON: We can tell you that this is what happens with the fruit growers in the Niagara Peninsula. The marketing board has been set up within the growers, and they decide what they will set as a minimum price for peaches, and in fact the processors are told "This is what you are going to pay." Some of the other marketing boards have a different negotiating setup. This occurs with such things as asparagus and tree fruits; it is determined by the growers and the processors have to accept it. I am not a marketing expert myself. You may know more about this than I do.

Mr. McCUTCHEON: No, not at all. I have, however, read some farm papers and I get an entirely different view of this. On page 5 of your brief you say "The costs of the canner have been increased by the assumption of enlarged storage responsibility and customer service." Somewhere else in the brief you pointed out that you have a one-year inventory. You also mentioned to us that you have storage facilities at Rexdale, and this, I assume, is a very expensive piece of property and shows you a profit of $10,000. Now we have been led to believe that the supermarkets in this country of ours have a turnover inventory as high as 12 or 15 times per year. In other words they have been, in effect, working on your money for this period of time. My question is probably hypothetical—we are all interested in driving down costs. It would seem, therefore, from the information you have given us that you are paying interest charges and storage charges on a lot of expenses on a one-year inventory and the supermarkets are taking advantage of this fact because they are charging for inventory too, and in essence they never have any of their own money tied up in it. Would there be a savings involved here in a different marketing scheme?

Mr. JOHNSTON: It is a very involved question. On the surface I cannot see where there would be any saving. So far as what we are doing in this consolidation in the distribution warehouses concerned, we have certainly got to have a warehouse somewhere and we have to have some goods at the plant and some in the distribution warehouse. We have two types of transfer of goods to our customers; some are plant pickup and we have to have goods there for that purpose, and some are on a consolidation basis at our big warehouse in Toronto. I cannot see where there would be any saving in this. Mr. Mapp is closer to the distribution people and the distribution methods than I am, and perhaps I could ask him if he sees any savings involved here which are not apparent to me.

Mr. MAPP: I do not see any. If we did not absorb the cost it would have to be moved on to the next level of distribution. Somebody has to pay for storage, warehousing and handling.

Mr. McCUTCHEON: Yes, I grant you that. I am speaking of the use of the money in this instance.

Mr. JOHNSTON: There has to be an investment in the warehouse somewhere. It is a question of whose hands it is in. So far as this particular warehouse in Toronto is concerned, certainly it is our investment and we have to recover that cost.

Mr. MCCUTCHEON: It would appear the supermarkets, through very efficient merchandising, have dropped the ball into your lap.

Mr. JOHNSTON: I think they have, with our products, but I think it must be appreciated that this is warehousing of a different type. They are taking shipments from us and shipments from our competitors and are consolidating them in a warehouse and then moving them out. If we did not consolidate our own products in our own warehouse they would have to have a much bigger warehouse.

Mr. MCCUTCHEON: On page 3 of your brief you say "During recent years approximatelty 5 per cent of our sales have been made in the export market." What export market?

Mr. JOHNSTON: I think the easiest way to answer that question is to quote from the annual report here where we make reference to that: "Our company brands are reasonably well established in the export markets of the United Kingdom, West Germany and the West Indies."

Mr. MCCUTCHEON: Do you compete on the export market with your parent?

Mr. JOHNSTON: Not as a general rule. There could be specific situations which would exist, but only for a short time. This is watched very closely, however. We know what they are doing and they know what we are doing and we have a pretty good knowledge of what their international operation is doing, and what they are doing in the international field is not competing.

Mr. MCCUTCHEON: What do you have to pay to the United States company for research?

Mr. JOHNSTON: I am pleased you asked that; we don't pay them anything. This research information and the results of the work they do are given to us at no cost to us. There certainly has been some cost to them because they have sent people up here to help us with it and to tell us what they found out and to help us to apply it to our operation.

Mr. MCCUTCHEON: Do you have to pay any licence fee for the Del-Monte brand or anything like that?

Mr. JOHNSTON: No, we do not. They depend for their returns on their shares in the company.

Co-Chairman Mr. BASFORD: I have a long list of names here. Mr. Allmand.

Mr. ALLMAND: Mr. Johnston, I believe you said you changed your label three years ago.

Mr. JOHNSTON: 1964—early 1964.

Mr. ALLMAND: Was this the occasion when you introduced your bilingual labels?

Mr. JOHNSTON: No, we have had bilingual labels for many years.

Mr. ALLMAND: You have, eh?

Mr. JOHNSTON: Yes, there was no change at that time as far as the bilingual label was concerned.

Mr. ALLMAND: Do you purchase your tins from one producer, or do you make your own tins?

Mr. JOHNSTON: We purchase them from one producer—we purchase some cans from one supplier, and we manufacture some ourselves.

Mr. ALLMAND: So you purchase all your cans from one manufacturer?

Mr. JOHNSTON: Yes, all that are purchased; and we do manufacture some.

Mr. ALLMAND: I am sorry, but I did not quite understand you.

Mr. JOHNSTON: We both purchase and manufacture. For certain sizes, we do manufacture.

Mr. ALLMAND: About what percentage would you manufacturer?

Mr. JOHNSTON: I do not have the figures here, but it is a substantial portion.

Mr. ALLMAND: Would that be through Canners Machinery Limited?

Mr. JOHNSTON: No, it is a separate plant operation in our organization; it is not a subsidiary plant.

Mr. ALLMAND: I notice in your annual report that you have commenced the production of low calorie foods—a year or two ago, I presume.

Mr. JOHNSTON: No, it is longer than that; it is some time ago. We have been in the low calorie diet products in canned foods certainly in excess of five years.

Co-Chairman Senator CROLL: At this point, would you mind explaining to my wife why they are more expensive?

Mr. ALLMAND: I was going to ask that myself. Give me an example of the same food that is low calorie and one that is ordinary.

Mr. JOHNSTON: I will attempt to answer that question on the understanding that if Mr. Mapp would like to add to it, I would be glad if he would do so.

Firstly, these are fruits we are talking about mainly. We have to use a definitely higher quality on low calorie foods in order for them to stand up in the diet line. We are putting it into smaller containers, which is what is demanded by the diet customer, and this increases the cost on the basis of an ounce. We do not have the same volume of product in the diet line, so the overheads which have to be charged against that are higher.

Mr. ALLMAND: Has your market research indicated that families, let us say, who buy diet canned fruit also buy the ordinary? In other words, do they buy both—most people who buy low cal?

Mr. JOHNSTON: Do you have any information on that, Mr. Mapp?

Mr. MAPP: Yes. I do not have the specific percentages, but we do know from research and actual experiences that many families buy some syrup-packed fruit and the diet line. Obviously, certain people within a family unit use syrup packed and others use a low calorie, calcium cyclonate as a diet.

The reason Mr. Johnston gave as far as the increased cost is concerned, of course, it is necessary to clear all the lines in the packing operation of the syrup, and then for a special pack of low calorie or diet line we have to move through and have a new type of syrup, so to speak.

Mr. ALLMAND: Are your sales increasing in the low cal products?

Mr. MAPP: Yes.

Mr. ALLMAND: Do you have special advertising for your low cal products?

Mr. MAPP: Yes.

Co-Chairman Mr. BASFORD: Could I ask a personal question? Do they work?

Mr. JOHNSTON: Yes, our research definitely indicates they do, sir.

Mr. ALLMAND: Are you in the frozen food business?

Mr. JOHNSTON: We were in the frozen food business at one time, and we are not today.

Mr. ALLMAND: Why did you drop out?

Mr. JOHNSTON: The main reason for dropping out was that we were never really in it in a proper way, and it was going to require considerable investment of capital to do so, and we felt at that time we had better uses for our capital.

Mr. ALLMAND: I notice you carry three brand names: Aylmer, Del Monte and Henley. Do these three brand names cover the same product lines; and, if so, what is the difference in the product?

Mr. JOHNSTON: The Aylmer line, first, is a full line of fruit and vegetables, soups, jams, jellies products. The Del Monte line is one which we acquired when California Packing Corporation bought control of our company and made that label available to us. At that time Del Monte was shipping the product into Canada—peaches, fruit cocktail and pineapple products, which are not manufactured here in Canada. They have continued to do so and at the same time we have expanded our products line into vegetables, primarily, so we do have products in the vegetable line of Aylmer and Del Monte which are basically the same products.

Mr. ALLMAND: Do they compete with one another?

Mr. JOHNSTON: Yes, they compete with one another.

Mr. SMITH: Have you dropped any Aylmer labels and replaced them with Del Monte labels?

Mr. JOHNSTON: Not that I am aware of.

Mr. ALLMAND: If both brands cover the same product, is there a price differential between the two, or is one in a higher quality range?

Mr. JOHNSTON: No, the quality is top quality within the label specification in both products.

Mr. ALLMAND: To have two different brand names covering, let us say, the same quality of product, would not this add to the costs?

Mr. JOHNSTON: No. Actually, it decreases our costs because it gives us more volume. In other words we are getting considerably more volume, in our opinion, by selling two labels than if we were only selling one label. As a result, we have larger quantities to spread our plant and production overheads over.

Mr. ALLMAND: But you have to produce two kinds of labels.

Mr. JOHNSTON: Yes, but labels cost the same for one or the other. Our production runs are large enough.

Mr. ALLMAND: Are the can sizes the same in both lines?

Mr. JOHNSTON: We do not have as many can sizes out in Del Monte lines in the same products as we do in others.

Mr. ALLMAND: I notice Henley. What about them?

Mr. JOHNSTON: Henley is the manufacturer's label of the Boese company, which is the company in the Niagara peninsula, fruit packers, which we acquired in 1964. This is a label that very definitely has strong consumer acceptance which they had been using and which we have continued to use, and to which I referred earlier in one of my answers to Mr. Urie's questions.

Mr. ALLMAND: Do they compare too with the many lines sold by Aylmer and Del Monte?

Mr. JOHNSTON: They are strictly fruit products—peaches, pears and fruit cocktail. It is not a national label to the same extent as the other two labels are.

Mr. ALLMAND: Do you serve the whole Canadian market with all your brands, or do you limit certain brands to certain provinces?

Mr. JOHNSTON: We service on a national basis with all the goods that are available. As far as Aylmer and Del Monte are concerned, we certainly cover Canada from east to west and west to east—including Newfoundland.

Mr. ALLMAND: That is part of Canada too.

Mr. JOHNSTON: Yes. Please strike that from the record.

Mr. ALLMAND: You said before you had approximately 25 per cent of the market in fruits and vegetables. Do you hold the biggest share of the market, compared to any of your competitors? 25 per cent is a pretty big percentage.

Mr. JOHNSTON: This is in fruits.

Mr. ALLMAND: Where do you stand, comparatively speaking?

Mr. JOHNSTON: Based on the information we have, we would pack and sell more fruit products in Canada than any other.

Mr. ALLMAND: Do you usually lead in price changes?

Mr. JOHNSTON: Yes and no. We certainly attempt to be a leader in the market, and where it is possible we will do so. It is not always ourselves that do it. This is a situation where you just have to move with the competition. If you try to go up and the competition does not follow, you may have to come back down. With our size we certainly feel we should be a leader in this way, which I think is undestandable.

Mr. ALLMAND: In your brief you state you sell approximately 6½ per cent for private labels. If you do sell this percentage for private labels, is the quality of those products as high as your Aylmer and Del Monte brands? Let us say you sell peaches for a private label, would they be as good a product?

Mr. JOHNSTON: Peaches are sold under the Choice label for private brands which we supply, and for our own brands. Certainly, the peaches which we sell under our own brands and under private labels meet government specifications for the Choice label.

Mr. ALLMAND: Would they be exactly the same? Would they contain the same peaches, from the same grower? Would they be taken from the same farms, and so forth and so on? Is there any difference at all in the product which you pack for your private labels—and I do not know who they are—

Mr. JOHNSTON: Sometimes there is. My answer to that question, I think, has to be that under our own label, Aylmer, we pack the best quality of fruit that we have available from our production.

The Co-Chairman Mr. BASFORD: I take it that the recipes are not the same?

Mr. ALLMAND: I did not take that from the answer, Mr. Chairman.

Mr. JOHNSTON: In the case of peaches the recipe would be the same. There is no change in recipe there. It is the sugar strength that determines the variation.

Mr. ALLMAND: I noticed in one of the Montreal papers last evening that one of the supermarkets is now comparing prices column by column. They are putting the prices of their own brands and the national brands side by side, with a note of the savings. They go through about 25 products. When we had these people before us we tried to compare the quality of these products. They all alleged that the prices were lower, and they produced figures to show that they were lower. Would you say that in respect of the price to the consumer the difference is due to national advertising promotion used for the national product—your product, for example?

Mr. JOHNSTON: I do not quite understand your question.

Mr. ALLMAND: Let us say that Aylmer peaches sell for so much per can in the supermarket, and the supermarket's own private brand, which is sitting right beside it, sells for 6 or 7 cents less.

Mr. JOHNSTON: I will not buy 6 or 7 cents less.

The Co-Chairman Senator CROLL: Hold everything. There is the ad. Just look at that, please. It is 6 cents.

Mr. ALLMAND: My question, Mr. Johnston, is: What would explain this? Is it purely the national advertising that accounts for the difference in the price

between these products? The supermarkets do not engage in as much national advertising as you do, or they do not have as big an advertising budget as you have. Their advertising was around 2 percent, I think, when we examined it.

Mr. JOHNSTON: I find it difficult to know just what your question is. You have thrown two or three curves at and I just wanted to make sure that I understand the question you are asking me.

Mr. ALLMAND: The first curve was as to the difference in price. It was not a curve, sir: I was joking there. But, consumers are interested to know why certain prices are at such a level, and other prices are at other levels. These people are selling peaches, pears and peas, and so forth, and they are selling them at a price less than that for the national brands.My question is: Would this difference in price be explained by national advertising and national promotion?

Mr. JOHNSTON: Well, I do not think we can really give a firm Yes or No answer to that. I do not think we know. We know that the private brands they are selling have not our advertising costs tacked onto them. These are not products bought from us. We do not know what they have paid for them, but we do know what they have paid for our products. We do not know what margins they are taking on their private labels as against the manufacturer's brands. We do not, as a general rule, sell private labels.

Mr. ALLMAND: Do you follow up the 6½ percent that you sell to private label to see what the product is being sold for?

Mr. JOHNSTON: Not on a regular basis. We are not private label packers.

Mr. ALLMAND: You sell 6½ percent to private label, and you say that in respect of peaches there was no difference in recipe. You said you sold top quality.

Mr. JOHNSTON: That is right. I said we sold Choice quality.

Mr. ALLMAND: Choice quality, excuse me.

Mr. SMITH: Do you think that the private labels and the nationaly advertised brands act as policemen with respect to each other? Do you think that they each have a salutory effect on the other? If we had no private labels then the nationaly advertised product might be higher in price, and if there were no nationally advertised products then perhaps the private brands would be higher in price.

Mr. JOHNSTON: All I can say is that competition is stronger by having private labels as well as manufacturers' labels. It is the competition between labels—and these are additional labels—which is the price setter in this industry. Do you wish to add anything to that, Mr. Mapp?

Mr. MAPP: No, I have nothing to add to that.

Senator MCGRAND: In sub-paragraph (2) on page 20 you mention the proportion of personal disposable incomes spent on food at the retail level has declined from 24 percent to 20 percent in the period from 1949-53 to 1965. Now, what sector of the food industry took over that 4 per cent?

Mr. JOHNSTON: What sector took over the 4 per cent? This is a 4 per cent reduction.

Senator MCGRAND: It did not disappear altogether.

Mr. JOHNSTON: I have nothing to base this on, other than—

Senator MCGRAND: This was mentioned in the brief of the Department of Agriculture.

Mr. JOHNSTON: I would assume the consumer has taken this money and is spending it on television sets and clothes, and things for the home—hairdressing. I do not think she is saving it from what is seen in the figures.

The Co-Chairman Mr. BASFORD: Senator Carter?

Senator CARTER: Most of my questions have been answered, Mr. Chairman, but I would like to ask a question supplementary to Mr. Allmand's line of questioning about private brands. You said that private brands amount to about $6\frac{1}{2}$ percent. What has been the trend? Is that $6\frac{1}{2}$ percent an increase, or how does it compare with the figure for the previous year?

Mr. JOHNSTON: So far as our company is concerned?

Senator CARTER: Yes.

Mr. JOHNSTON: We quote $6\frac{1}{2}$ per cent as our percentage for 1965 and 1966. We have certainly no plan to increase that percentage. Our plans are to maintain and increase our—

Senator CARTER: But, that is $6\frac{1}{2}$ per cent of your total sales.

Mr. JOHNSTON: That is right.

Senator CARTER: As your total sales increase your private brands are increasing too?

Mr. JOHNSTON: Yes, to a proportionate extent, this would be so. I think this is due, to a certain extent, to the increase in population.

Senator CARTER: There is only a 2-cent differential between your private brands and your Aylmer brand at the wholesale level—

Mr. JOHNSTON: We are talking about the retail level here. That is what these figures are here.

Senator CARTER: That is what I wanted to get.

Mr. JOHNSTON: Yes, they are retail shelf prices.

Senator CARTER: The prices on page 18?

Mr. JOHNSTON: Yes, those are retail shelf prices. We are not in a position to give you any information, in a proper way, as to the pricing at the wholesale level.

Senator CARTER: How do you arrive at these figures? You say they are quoted from some pricing service book.

Mr. JOHNSTON: We do engage a pricing service bureau in Toronto to supply this information to us.

Senator CARTER: They go to the stores and—

Mr. JOHNSTON: Yes, they do it on a test research basis, and this information is available.

Senator CARTER: And they know that this private brand here is yours?

Mr. JOHNSTON: No, we are not saying that these are our private labels.

Senator CARTER: That is what I wanted to know.

Mr. JOHNSTON: I do not want you go get that impression. It is a private label on the shelf, but not one packed by us.

Senator CARTER: You have no information then as to how your private label sells at the retail level as compared with your Aylmer brand?

Mr. JOHNSTON: No, because—we could obtain that by the use of codes and one thing and another, and a look at his distribution and ours, but we do not do this as a specific program, because I am sure that in selling a private label they are selling it at the same price, no matter who the packer is.

Senator CARTER: I have a few more questions, but they can wait, Mr. Chairman.

Mr. SALTSMAN: Mr. Johnston, as occasionally happens, supposing you were to get too much salt or sugar in a mix that did not meet your formula requirements, what would you do with that batch?

Mr. JOHNSTON: Which did not meet our formula requirements?

Mr. SALTSMAN: Yes.

Mr. JOHNSTON: We would certainly do an analysis of it, and I would think we would dump it. It would depend entirely on what the difference was. If it was something like just the flavour going off a little bit, it could possibly be set at a cheaper price under another label and still be passed by Government inspection. If it was something to make a product unpalatable we would have no choice.

Mr. SALTSMAN: Assuming it had a taste that was not up to your particular standard, would that be marked as a private label?

Mr. JOHNSTON: No.

Mr. SALTSMAN: I noticed your reluctance when you discussed the difference between private label and national label.

Mr. JOHNSTON: We would not sell it to one of our customers on a private label basis with that knowledge.

Mr. SALTSMAN: But it would be sold in some way and might show up as a private label?

Mr. JOHNSTON: It could be, depending on what the deterioration—not the deterioration, the flavour problem was.

Mr. SALTSMAN: So if there was a difference between your product and the private label product that might subsequently show up it would be a question of a slight difference in taste rather than the difference in intrinsic merit of the food itself, is that correct? In other words, the private label would still be good enough for people to buy and to feed their children, and all the rest of it; it is just a question of the taste being off according to your standards. Is that a correct interpretation?

Mr. JOHNSTON: Let us have it understood that there is no indication on our part that a private label product would be off in taste. My understanding of your question, and what I have previously said, is that if we have a product which is off in flavour and which would still pass Government standards and be a good food suitable to sell, it could be sold under another label which would be a standard label, which we have. Our own company has standard labels, and it might pass as standard and not a choice product.

Mr. URIE: What about sub-standard?

Mr. JOHNSTON: Sub-standard specification, too. But we would not sell it under a private label, and I am not suggesting that we or any other company would do that. I want to make that perfectly clear.

Mr. SALTSMAN: I think that is quite important. On page 18 where you make a comparison between private label brands and national label brands. Were any private brands which you used as an illustration backed by your company?

Mr. JOHNSTON: I cannot tell you. This was done by a retail service organization, and whether any of these private label items were used or not, we would not know.

Mr. SALTSMAN: I woud like to refer you to Exhibit 1, the comparative financial statement. I do not know whether this question was asked while I was not here, and I apologize for coming in late, Mr. Chairman. In the years between 1962-63 an 1963-64, there was a very dramatic increase in your earnings before income tax in your net earnings. Did you get an accounting as to why that increase took place in that particular year?

Mr. JOHNSTON: Those questions were already asked.

Mr. SALTSMAN: I see you have foreign advertising mentioned, where is that foreign advertising?

Mr. JOHNSTON: It is shown on Exhibit 2. The United Kingdom and the West Indies.

Mr. SALTSMAN: I think there were some further questions regarding the amount of exporting you do in the world. Are you perfectly free to go into any foreign market and compete with your United States parent?

Mr. JOHNSTON: We are.

Mr. SALTSMAN: Do you go into foreign markets and compete with them?

Mr. JOHNSTON: Where our costs are less so that we can compete, yes. We are limited in the world market really to the United Kingdom, West Germany and West Indies. These are the only areas in which we are really able to compete at the present time.

Mr. SALTSMAN: What about Australia and New Zealand? Are United States products sold in Australia and New Zealand?

Mr. JOHNSTON: Not to my knowledge. If we could land them there at the same price—

Mr. SALTSMAN: You have not explored those markets, though?

Mr. JOHNSTON: Only in a general way. I do not know whether Mr. Mapp would like to add anything to this.

Mr. MAPP: For many years we have been attempting to build our business in Australia, but it is confined to about four different items; no fruit at all, one item in vegetables, and the rest in specialty items. It is a negligible market as far as we are concerned.

Mr. SALTSMAN: Would you have some advantage over your United States parent under Commonwealth preference wherever there are Commonwealth countries?

Mr. MAPP: We do in the United Kingdom and the West Indies.

Mr. SALTSMAN: What about African countries?

Mr. MAPP: I don't believe so.

Mr. JOHNSTON: I am not certain, but I do not believe so, Mr. Saltsman.

Mr. SALTSMAN: Will you give us any indication how your prices compare for similar products here in Canada with the United States?

Mr. JOHNSTON: Similar products with the United States?

Mr. SALTSMAN: Say a can of beans or peas or corn of the same size and quality in the United States.

Mr. JOHNSTON: I don't really have any information on that at the moment. Have you, Mr. Mapp

Mr. MAPP: No, I have nothing on that.

Mr. JOHNSTON: I would guess this would vary within products up and down. We know our fruits would be higher here than in the United States, but I would think in vegetable items it would be quite comparable.

Mr. SALTSMAN: Do you have a tariff protection on your canned goods?

Mr. JOHNSTON: Yes. It varies by products. Mr. Lister certainly has a better knowledge of this than I have, but I do not think it is fair to say that it is right across the board, because they vary by product, some ad valorem, some specific.

Mr. SALTSMAN: Could you give us some indication of those tariffs on those products, if you have them?

Mr. JOHNSTON: You are talking about the protection say from the United States coming into Canada?

Mr. SALTSMAN: Yes.

Mr. JOHNSTON: Peaches, $2\frac{1}{4}$ cents a pound.

Mr. SALTSMAN: How does that work out for corn?

Co-Chairman Mr. BASFORD: Mr. Saltsman, it was my intention to ask National Revenue to file with the committee a complete schedule of food items.

Mr. SALTSMAN: All right. Referring again to Exhibit 1, earlier in your brief you indicated that one of the reasons costs were higher was because of rising interest rates; is that correct? Now, on Exhibit 1, if you look at interest expense, you find that interest expense is down quite considerably over the last three years.

Mr. JOHNSTON: Our interest expense does show as being down there in two years, and then going up again. You must remember that we had earnings which have been retained and which helped to keep our borrowings down. That is the main reason for this. We have been paying a dividend on our "A" shares, and that has all been paid out of earnings. Our working capital has improved and we have had better control of our inventories. Our interest rate has been increasing and moving up higher than initially. I am talking about interest rate, not total borrowings.

Mr. SALTSMAN: Is it fair to say that you have been able to do much of your expansion, this considerably higher volume over those years, from retained earnings?

Mr. JOHNSTON: It has been done with earnings retained.

Co-Chairman Senator CROLL: Regarding Exhibit No. 5, where you show peaches, 15 ounce, in the first column, would you tell me what you get for a can, in 1965, roughly, and in 1966, for peaches, pears and corn.

Mr. JOHNSTON: At which point?

Co-Chairman Senator CROLL: You could average it for the year.

Mr. JOHNSTON: What we get per can?

Co-Chairman Senator CROLL: Yes.

Mr. JOHNSTON: My friend Mr. Lister may be able to work that out. Senator Croll is asking for the average price per can, as I understand it, for 15 ounce peaches and 15 ounce pears and 20 ounce corn, on the basis of the information shown here. We want the per can price.

Co-Chairman Mr. BASFORD: While Mr. Lister is thinking on that, Senator Inman has some questions.

Senator INMAN: I wish to ask Mr. Johnston about the labels. What is the specific differential between private labels and growers labels?

Mr. JOHNSTON: I do not understand the question. Is it on the shelf, or the appearance, or the quality?

Senator INMAN: Quality.

Mr. JOHNSTON: As far as quality is concerned, whether it is a manufacturer's label or a private label, the quality is stated on the label and is determined by Government regulations under one of the acts we have referred to in our submission.

Senator INMAN: What would be the difference in price, for instance, or is there any?

Mr. JOHNSTON: The difference in price, between the private label and the manufacturer's label—the difference in the price at the shelf level is the only information we can give.

Senator INMAN: At the outlet?

Mr. JOHNSTON: On page 18 of our submission we give some information we received from our service in Toronto. The indication there is that it is in the area, in many products, of two cents a tin.

Mr. Senator INMAN: Why is there that difference?

Mr. JOHNSTON: As national brand packers we are involved in advertising costs which we have to recover. We have no control over the margin which the

private label man is willing to take in his own store. Mr. Mapp may have something further on that.

Mr. MAPP: On page 17 we outlined in our brief certain comments. We indicated that we had certain expenses in developing an item. Whether it be fruit cocktail or some other item, the manufacturer would have a substantial investment in developing that particular product and then presenting it to the consumer over and over again, in such a way that she becomes interested in it, buys it, and continues to buy it. With that investment, the manufacturer must recover that portion of expense. Quite often, the private label distributor would not have the initial expense and therefore he would have the benefit of an investment already made. That would be one of the reasons why, possibly, the national brand would be more expensive than the private label.

Senator INMAN: Thank you.

Mr. SALTSMAN: To get some idea of this investment cost in the private label, how much fruit cocktail, in dollars, would you sell in a year?

Mr. JOHNSTON: From memory I cannot give you that figure today. We would be glad to make it available to the committee.

Mr. SALTSMAN: Would it be a million dollars a year?

Mr. JOHNSTON: Yes, it would be in excess of a million dollars.

Mr. SALTSMAN: This would mean that if a private label sold at 10 per cent less, you are getting $100,000 a year for national label. If you take this over a period of years, this would more than cover the cost of research and advertising? How much would it cost to research and do development on a product of that type?

Mr. JOHNSTON: I do not think it is possible to answer that question. When these things are developed, the development is done over many years. Fruit cocktail is an item which grew over a process of many years. I would say it goes back many years to the time it first came onto the market and as to putting a specific cost on that, I am afraid I cannot help.

Senator O'LEARY: Were you ever in the baby food business?

Mr. JOHNSTON: Yes, sir.

Senator O'LEARY: In what year did you discontinue your operations in the baby food business?

Mr. JOHNSTON: Speaking from memory, it would be about 1955 or 1956.

Senator O'LEARY: You mention in your brief that you import only about 8 per cent of the products used in processing and you indicated two particular items as examples. Did you ever import pears at any time?

Mr. JOHNSTON: Yes.

Senator O'LEARY: In 1964 and 1965, for example?

Mr. JOHNSTON: Yes, we brought some in.

Senator O'LEARY: In 1963 would you have imported quite a large number?

Mr. JOHNSTON: I do not think it is a large number. We brought in some pears to supplement our Canadian pack and to bring into certain areas, but generally we have not brought in a lot of pears.

Senator O'LEARY: What is a cling peach, as compared to our Canadian grown peaches?

Mr. JOHNSTON: My personal opinion is that a cling peach is an inferior peach to a Canadian freestone peach, which is the product we pack in Canada. The cling peach has a different skin and softness to it, but it seems to appeal to the housewife for appearance sake, over the freestone. It does not have the flavour, it is not as sweet or as tender. It is strictly a processing peach, a peach which is grown in the United States, in Australia, South Africa and other

countries, for processing only. It is not a peach for the fresh market. The freestone peach which we use in Canada is used in the fresh market as well as in processing. I say again that, in my opinion, it does not come up to the freestone peach for flavour and for eating on the table.

Senator O'LEARY: You do not import it, then, to meet your sales requirements by a certain demand?

Mr. JOHNSTON: You are speaking of which?

Senator O'LEARY: The cling peach?

Mr. JOHNSTON: We do bring in the cling peach, under the Del Monte label, and always have.

Mr. URIE: In Exhibit 2, dealing with advertising, there is no mention of such things as deal allowances, samples, coupons, et cetera, in your total advertising expenses. I am reasonably certain—you can correct me if I am wrong, that you do indulge in this type of promotion. Where is that found in your statement? I am talking about three things specifically.

Mr. JOHNSTON: That is what I wanted to be sure of. What are the three things?

Mr. URIE: Deal allowances, samples, coupons. Mr. James has drawn them to my attention. Are they under the heading of Volume Incentive?

Mr. JOHNSTON: No. As far as samples and coupons are concerned, they are a very minor part of our operation. I would like to make that comment. In regard to deal allowances, Mr. Mapp will speak, as he is more familiar with it.

Mr. MAPP: On our invoicing, as has been brought out, we have no place at all for discounts.

Mr. URIE: It is a net figure.

Mr. MAPP: Yes sir. Any deal allowances would be worked into the price. I think I am correct in that. On samples, as was mentioned, it is negligible. Coupons are negligible with us. We have used some coupons, but to a very limited extent.

Mr. URIE: But you do indulge in deals quite extensively, from my observation in various stores.

Mr. MAPP: In merchandising allowances, yes, sir.

Mr. URIE: There should, then, be added to your advertising expenses, should there not, to give a true reflection of the amount that you expend on promotions, the sums that you expend for deal allowances? If that is correct, then, sir, could you provide for the committee, for the years 1960 to 1966, your expenditures for deal allowances and the percentage of gross sales.

Mr. JOHNSTON: What actually do you mean by "deal allowances", so that we are sure we understand you. You see, I think what we are saying is that we do have certain allowances which will be in effect for a period, which is something off the list price. Now, these are netted.

Mr. URIE: Tell me what those are.

Mr. JOHNSTON: These are netted at that time. In our system we are showing a net price. This sort of thing would be difficult to take out.

Mr. URIE: But the fact that you even have them, though, does in effect contribute to the cost somewhere, does it not?

Mr. JOHNSTON: We have thought—and correct me, Mr. Mapp, if I am not right in my comment here—that deal allowances which we are talking about here are in effect price adjustments.

Mr. URIE: Like a volume incentive?

Mr. JOHNSTON: No, that is something which is earned on the basis of purchases of quantities over the year and is paid at the end of the year, depending on the bracket the buyer is in.

Mr. URIE: Give examples, then, of some of the things that you do to provide the retailer, and the ultimate consumer, with certain additional goods, deals, prices off, or whatever it may be.

Mr. MAPP: I will add something to this. For example, from time to time, in order to increase our market and fill our movement of the given product, whether peas or corn, we would possibly pack a larger inventory of a 10-ounce item, the small can.

Since it is impossible for us, because of expense reasons and costs, to sample from house to house or even to use coupons, we may put on a special price for a 10-ounce item. We do this. However, that particular allowance comes off the invoice, and it moves out and is invoiced at a given price, at a specific price. If, for example, our price on a certain item has been $3.50 per case delivered, say to Rexdale or Toronto warehouses, and at a certain time we want to put on an allowance, we reduce the invoice price and extend it in the usual manner, but we reduce it to, perhaps, $3.00 or $2.90 or $2.80, whatever the allowance is.

Mr. URIE: That would be the price going on the invoice?

Mr. MAPP: That is right.

Mr. URIE: Have you any information as to whether those savings are passed on to the consumers?

Mr. MAPP: As far as we know they are. That is the reason that we put those on. We put them on certainly with our own intention that they are to be passed on to the consumer.

Mr. URIE: Does your market research or comparative shopping, whichever it may be termed, indicate that, in fact, in most cases it is passed on? Has the volume of purchases from your organization indicated that those prices have been passed on?

Mr. MAPP: Yes, that is true.

Mr. URIE: To the full extent of the allowances, do you suppose?

Mr. MAPP: I would think so. However, the distributor does have additional expenses for these promotion.

Other than that, he was window displays or special floor displays, and certainly there is some cost to him from those.

Mr. URIE: How many of those do you run a year?

Mr. MAPP: We have no given amount. They run from time to time, based on the inventories and the need for certain promotion.

Mr. URIE: In 1965 or 1966, or both, can you supply us with figures of how many of those deals you ran and how many dollars were involved in them and to whom they were made available? Were they made available to all of your customers?

Mr. JOHNSTON: Oh, yes. I think a good example is this 10-ounce program which Mr. Mapp was mentioning. I know that yesterday, coming up on the plane, we noticed that one of the chains—and unfortunately I cannot remember the name, although I would not want to mention the name specifically in any event—did have the 10-ounce program advertised in the paper. This is one obvious proof to us that this is being done.

Mr. URIE: Having seen that ad, is there any way for you, knowing for what you sold the product, to determine whether or not there is an equivalent reduction in the ultimate price to the consumer?

Mr. JOHNSTON: There is, and I am sure the marketing people are watching.

Mr. MAPP: Yes.

Mr. JOHNSTON: We do not have a specific report on it that I know of. Perhaps Mr. Mapp's staff does.

Mr. URIE: Would it be possible, Mr. Johnston, Mr. Mapp, to give us a report on that?

Mr. MAPP: Yes, I am sure we can do that.

Mr. JOHNSTON: I think, from what is in the record here, that we can certainly figure out what you want, Mr. Urie, and certainly give some information on it.

The Co-Chairman Mr. BASFORD: What other payments do you make to the chain stores?

Mr. URIE: I was coming to that also.

The Co-Chairman Mr. BASFORD: Go ahead.

Mr. URIE: I think what you had in mind, Mr. Chairman, is this: what payments do you make to the chain stores for various displays, such as aisle displays, floor displays, window displays, or displays of any kind? Where is that shown?

Mr. JOHNSTON: I would like Mr. Mapp to handle that question.

Mr. MAPP: We have in our merchandising and marketing program a co-operative merchandising allowance. Corporate funds are made available to every one of our distributors. They are made available on an equal basis. For the items of Del Monte and Aylmer the allowance amounts to eight cents a case on everything that the distributor buys and ships to his own operation.

That fund is build up, and at certain times we make those moneys available for special advertising or for a co-operative effort in merchandising and advertising. They are paid after proof of performance, as was indicated earlier.

We have one other part of this merchandising program which we refer to as volume incentive, and that is based on the total volume that a distributor buys, and it is paid at the end of the year.

Mr. URIE: What is that volume incentive in percentages? I can see it there as a percentage of your total sales, but what is it, precisely? Say that I am the merchandising man for Dominion Stores, what is the volume incentive which is given to me? And further to that, does mine vary from that of Loblaws and from that of IGA, or from the incentive given to the man at the corner of the street?

Mr. MAPP: No, it does not vary at all. We have the same program out for every distributor. As I mentioned, it is based on volume that a particular distributor does with us. It starts, for example, on the Aylmer volume incentive program, from 20,000 cases up to 49,999 at two and a half cents a case, and it builds on up through there.

The CO-CHAIRMAN Mr. BASFORD: What was the situation on that same thing before 1960?

Mr. MAPP: We had a different program at that time and it was based on a percentage increase.

The same allowance was made to every distributor, but at that time, or prior to 1960, our volume incentive program read that for a 1 per cent increase in volume the distributor would receive one cent a case extra, up to 4 per cent increase. There was nothing over a 4 per cent increase, and nothing over four cents a case.

The CO-CHAIRMAN Mr. BASFORD: Was that true also of the co-operative advertising program, of the eight cents a case?

Mr. MAPP: Well, we had a different advertising program, merchandising and co-operative program at that time. I do not have it with me. I do not recall

exactly what we did have, but we would be very happy to furnish the committee with the information.

The Co-Chairman Mr. Basford: Wha tchange in your method of operation did section 33B of the Combines Act make?

Mr. Mapp: We changed our total merchandising plan at that time. We made the whole program available to all distributors.

The Co-Chairman Mr. Basford: Prior to that time the plan had not been available to all?

Mr. Mapp: It had been available to everybody on the same basis, but under the new section they deemed that our program was not acceptable.

Mr. Johnston: If I might just add a word, Mr. Mapp, I would just say here that, prior to that change, it was a true incentive program. It is not now, at that time we had built-in amounts that were paid by increases in sales volume. Now it is on a straight bracket basis. In each situation it was made completely available to every customer, and it was a public plan. There was nothing secret or confidential about it whatsoever.

The Co-Chairman Mr. Basford: Was this change an improvement from your company's point of view?

Mr. Mapp: I don't think it was an improvement. We probably would have liked the other one better for various reasons. I don't think it made a great deal of difference, however.

The Co-Chairman Mr. Basford: Didn't it serve to get the supermarkets off your back?

Mr. Mapp: Well, they were trying to get as big a co-operative advertising allowance as they could, and they have, but it really made no difference.

Mr. Johnston: Supermarkets are our customers and we like to have them on our backs.

The Co-Chairman Mr. Basford: But also live and die depending on what they do to you.

Mr. Urie: At one time didn't the ability to have displays and to have co-operative advertising programs with the supermarkets chains—were not these all subject to individual negotiations from time to time so that you might be asked, for example, in any one given instance or you might be told "If you want a display in each of our 20 stores, you will have to pay so-many dollars for such a period of time"?

Mr. Mapp: We think that was probably the case.

Mr. Urie: Do you know whether or not it was from your own experience?

Mr. Mapp: I cannot tell you because I just came into this job in 1960.

Mr. Urie: Well, from information then?

Mr. Mapp: Yes.

Mr. Urie: Is it the case now?

Mr. Mapp: No. I would like to qualify that. Different distributors have different programs for merchandising and co-operative advertising and, depending on the performance they give us, that controls the expense. For example, they may have one price on a certain type of promotion and they may have a higher price on another more expensive promotion. We, as a co-operative advertiser with them, buy, so to speak, out of our co-operative funds the programs we want.

Mr. Urie: The funds are withheld for the purpose of co-operative advertising from time to time during the year?

Mr. Mapp: That is correct, yes.

Mr. URIE: But the individual display or store demonstration is subject to negotiation within the amount you have budgeted for co-operative advertising?

Mr. MAPP: Yes.

Co-Chairman Mr. BASFORD: What happens if at the end of the year there is a credit balance in that account?

Mr. MAPP: That comes back to us.

Co-Chairman Mr. BASFORD: How often is there a credit balance in the fund?

Mr. JOHNSTON: It is a minor amount that is not picked up.

Co-Chairman Mr. BASFORD: The chains are able to get all the funds out by the end of the year?

Mr. JOHNSTON: They are given a period of 90 days at the end of the fiscal year, that is up to the end of May, to use all this up.

Mr. MAPP: I would like to add that some of the money always comes back to us, but I don't know the exact amount.

Mr. URIE: Are you the people who fix the co-operative advertising allowance or is that also subject to negotiation?

Mr. MAPP: It is our own doing.

Mr. JOHNSTON: I have here copies of the two plans. I think you will understand them after reading them.

Mr. URIE: I will study these things and perhaps we will come back to them.

Co-Chairman Mr. BASFORD: Could I have a statement for the last fiscal year showing the amount in the fund left by the balance that could have been taken up by Dominion, Steinberg's, Safeway and Loblaw's?

Mr. JOHNSTON: Yes.

Co-Chairman Senator CROLL: Have you got that answer, Mr. Johnston? Mr. Lister, what do you make it for canned peaches, if you have it there—15 ounces, the average for 1965?

Mr. LISTER: The approximate average is 21½ cents per tin.

Co-Chairman Senator CROLL: What is it in 1966?

Mr. LISTER: It's 23½.

Co-Chairman Senator CROLL: Canned pears?

Mr. LISTER: Twenty-four.

Co-Chairman Senator CROLL: And in 1965?

Mr. LISTER: Twenty-six.

Co-Chairman Senator CROLL: And canned corn?

Mr. LISTER: Sixteen and one-half.

Co-Chairman Senator CROLL: In 1965?

Mr. LISTER: That is 1965.

Co-Chairman Senator CROLL: And in 1966?

Mr. LISTER: It is 17½—that is approximate.

Co-Chairman Senator CROLL: That's all right. These are averages. I have a figure before me from the Department of Agriculture which says the average price received by the Ontario growers for raw produce delivered at the factory expressed as cents per tin. For the choice grade for the years 1961 to 1965 and 1966. The Department of Agriculture says that for the canned peaches—the 15 ounces we are referring to—the grower got 5.7 cents for what went into tha tcan. You got 21½ cents and it was sold for 26.2 cents. Have you got that all right? I am going to have some comment.

Mr. JOHNSTON: Can we have them again?

Co-Chairman Senator CROLL: The grower got 5.7 cents for what was in the can. You got 21½ and it was sold for 26.2. In 1966 the grower got 6½ cents for what was in the can, you got 23½, and it was sold for 29.2 cents. We are talking of averages, not months. Then we go on to corn: the grower got 4.3 cents, you got 16½ cents, and the public paid 23 cents. In 1966, the grower got 4.2 cents, you got 17½ cents, and the public paid 23.4 cents. Now, can you enlighten us on the spread?

Mr. JOHNSTON: I would like to be sure what you are asking for. We have got some figures for peaches and corn.

The Co-Chairman Senator CROLL: I gave you the figures for peaches, 5.7 cents, 21½ cents, and 26.2 cents in 1965, and 6.5 cents, 23½ cents, and 29.2 cents in 1966.

Mr. JOHNSTON: I have the figures. You want us to comment on what?

Co-Chairman Senator CROLL: The grower got 5.7 cents for what was in that 15-ounce can of peaches, and you got 21½ cents; is that correct?

Mr. JOHNSTON: Yes.

Co-Chairman Senator CROLL: And you sold them for 26.2 cents. It seems to me at a quick look that from 5 to 21 is quite a substantial spread.

Mr. JOHNSTON: I think what you are getting at, if I understand you correctly, is the breakdown as shown on our Exhibit 7 as to the variation between the percentage of the cost of raw produce which is in the total cost of 100. Also at page 19 we dealt with it on the basis of tomatoes. In these additional costs here we go from 5.7 cents to 21.5 cents. We, of course, have to add in all the labour. We have our plant depreciation and our maintenance costs. You have selling expenses; you have freight and storage to add; and general admin. expenses. The difference between 5.7 and 21.5 is the cost of these things plus a small, I would expect, profit that is in here.

Co-Chairman Senator CROLL: May I ask you then: As I indicated this comes to me from Agriculture, and certainly you must have tested it. He said the grower got 5.7 cents in 1965 and 6.5 cents in 1966. Do you question that? Do you agree with it?

Mr. JOHNSTON: It is about a 14 per cent increase.

Mr. LISTER: Our grower cost is about 6.7 against the 5.7 you speak of there. Ours is a little higher, about 6.7.

Co-Chairman Senator CROLL: For instance, in corn, do you quarrel with the fact it is 4.3 and 4.2 to the grower?

Mr. ALLMAND: There is one question I would like to ask on peaches. The Department of Agriculture—and I certainly hesitate to challenge any of their figures—they say the grower got 5.7 in '65 and 6.5 in '66.

Mr. JOHNSTON: Our information is that the grower got the same thing in both years.

Co-Chairman Senator CROLL: Not in Exhibit 5; there the price was different.

Mr. JOHNSTON: That is our price. We are talking about the price we pay to the grower for the produce. I do not see how they can go from 5.7 to 6.5, when the price was the same for both years.

Co-Chairman Senator CROLL: That is the price they gave us, as I indicated, from the department.

Co-Chairman Mr. BASFORD: It is a matter open to great study, senator.

Mr. JOYAL: How are you doing this year? Your fiscal year terminates in February, and about eight months have gone by. I am curious to find out how are your sales and earning figures for this year—continuing an improvement?

Mr. JOHNSTON: Certainly, you have me on the spot. We do not produce any interim figures to our shareholders or anyone. If I have to answer that question, I certainly will; but I do not think it is the proper way to have our earnings for this year get out to the financial public. Our shareholders have received at this point no report on our picture for this year.

Mr. JOYAL: The last question is: In your statement of earnings, you showed depreciation during 1966 of $1,093,000; but in your balance sheet you are only charging off about $600,000 on that. What is the reason for that practice?

Mr. JOHNSTON: If I follow your question, you are saying the increase in our depreciation accumulated, as shown on the balance sheet, is somewhere in the area of $6,000,000, and we are showing a charge of $1,093,000 on the statement of earnings. The difference there would represent the assets which we have disposed of during the year and which we have removed from both the assets side and the depreciation accumulates the values that are against those disposals.

Co-Chairman Mr. BASFORD: There being no further questions, and it being five minutes past one—

Mr. SALTSMAN: Mr. Johnston, will you predict lower prices for the consumer this coming year?

Mr. JOHNSTON: On some items this is possibly so; on other items, no.

Co-Chairman Mr. BASFORD: There being no further questions, I would like to thank Mr. Johnston and his company and witnesses for coming here today and presenting the very comprehensive brief they have and for undergoing the extensive and exhausting question period. We appreciate very much, sir, your co-operation and help to the committee.

Mr. JOHNSTON: I am glad to be here, sir, and if there is any further help we can be, we will be pleased to assist.

Co-Chairman Mr. BASFORD: We are late this afternoon, but I have good news for the committee: you have the afternoon off. Green Giant of Canada limited was supposed to be here this afternoon but will not be presenting its brief, and there will be no meeting this afternoon. I understand Mr. Campbell wants to say something to us.

Mr. Colin C. Campbell, Vice-President, Green Giant of Canada Ltd.: Mr. Chairman, Senator Croll, honourable members, ladies and gentlemen: I did not want to say anything, except to express our regret at our inability to be here due to adverse weather conditions in the Windsor area. I passed this information along in an informal way; I do so now in a formal way. Apparently, nature was not on our side. The Jolly Green Giant, over the years, has lived on close terms with the sun, rain and nature; but today the adverse weather conditions militate against his being here. However, we will be very happy to be here at any time that is convenient to the committee and members of the company. Believe me, gentlemen, the Windsor airport has beeen socked in for the last day, and I believe there is snow to the extent of 8 to 10 to 12 inches, and it is much regretted we cannot be here.

Co-Chairman Mr. BASFORD: Coming from Vancouver, you are talking about conditions I know nothing about, Mr. Campbell. We will arrange another appearance. In the meantime, when the weather conditions clear up and you can have the brief sent up, we will appreciate receiving it.

Mr. CAMPBELL: I will pass that message along.

Co-Chairman Mr. BASFORD: The other day Mr. Allmand made observations about Christmas shopping and Christmas pricing. In answer to his remarks of the other day I said I would report to the committee, and I would like to advise the committee of the following, that the Consumers' Association of Canada and the Joint Committee on Consumer Prices are co-operating in a nationwide

survey of food prices over the Christmas season. Anonymous comparison shoppers from the C.A.C. will collect prices at intervals from now until January to see if there is any evidence of prices being marked up in the Christmas rush. The prices of a confidential list of goods recorded by the C.A.C. shoppers will be fed into an electronic computer in Ottawa for analysis. Already a team of computer specialists are at work designing a program which will alert the Joint Committee on Consumer Prices immediately any unusual change in food prices takes place.

The co-chairmen express gratitude to the C.A.C. for its vountary co-operation in this project.

Mr. ALLMAND: Are these all volunters or professional comparitive shoppers?

Co-Chairman Senator CROLL: They are all professional.

Mr. ALLMAND: They are all professional?

Co-Chairman Senator CROLL: No, I did not say that!

Co-Chairman Mr. BASFORD: The arrangements must remain confidential, but they are extremely competent.

Senator O'LEARY (*Antigonish-Guysborough*): Mr. Chairman, have you had any objection, from witnesses appearing before us so far, to our having these briefs in our hands at least 24 hours before they appear?

Co-Chairman Mr. BASFORD: As was reported the other day and read into the record, a wire had been sent to all witnesses requesting their briefs a day in advance. Some companies, for reasons quite understandable to me, have had difficulty doing this. Where they are able to co-operate, we have received that co-operation, but there have been some difficulties in getting briefs in in advance. The steering committee, Dr. James and the companies involved are trying to meet this wish and your desire, senator. In some cases this is not possible.

Senator O'LEARY (*Antigonish-Guysborough*): I was not voicing any criticism of the committee. I really want to know if you have had any objection from witnesses to doing this.

Co-Chairman Mr. BASFORD: No objection, but some have experienced difficulties in complying.

The committee adjourned.

Exhibit 1

CANADIAN CANNERS LIMITED

COMPARATIVE FINANCIAL STATEMENTS

Six Years Ended February 29, 1961 to February 28, 1966 Inclusive

	1960–61	1961–62	1962–63	1963–64	1964–65	1965–66
	$	$	$	$	$	$
Gross Sales	42,216	41,317	42,817	45,917	50,764	53,533
Freight, Storage and Sales Tax	2,192	2,263	2,573	2,674	2,810	2,965
Net Sales	40,024	39,054	40,244	43,243	47,954	50,568
Cost of Goods Sold						
Direct Materials	21,654	19,444	17,540	19,940	24,052	23,136
Direct Wages	3,507	3,199	2,879	2,921	3,946	4,266
Factory Overhead	3,611	3,816	3,724	3,723	4,044	4,512
Depreciation	675	695	757	871	988	1,159
	29,447	27,154	24,900	27,455	33,030	33,073
Goods Purchased for Resale	4,335	5,210	4,805	6,495	5,180	7,404
(Increase) Decrease in Finished Goods Inventories	(837)	(496)	3,264	505	(778)	(1,149)
	32,945	31,868	32,969	34,455	37,432	39,328
Gross Profit	7,079	7,186	7,275	8,788	10,522	11,240
% of Gross Sales	16.8%	17.4%	17.0%	19.1%	20.7%	21.0%
Selling Expense						
Cash Discount	550	547	552	595	672	707
Advertising and Promotion	1,549	1,483	1,465	1,762	2,069	1,826
Volume Incentive	314	420	465	504	630	685
Sales Commissions, Field Sales Salaries and Expenses	1,220	1,205	1,189	1,201	1,252	1,292
Selling Administration	507	489	501	488	506	573
	4,140	4,144	4,172	4,550	5,129	5,083
General Administrative Expense	1,860	1,949	1,793	1,749	1,730	1,914
Interest Expense	545	598	596	408	426	487
	6,545	6,691	6,561	6,707	7,285	7,484
Earnings before Income Taxes	534	495	714	2,081	3,237	3,756
Provision for Income Taxes	100	75	100	300	1,125	1,600
Net Earnings	434	420	614	1,781	2,112	2,156
% of Gross Sales	1.0%	1.0%	1.4%	3.9%	4.2%	4.0%
% Return on Shareholders' Equity	1.8%	1.7%	2.5%	6.9%	7.7%	7.3%

Exhibit 2

CANADIAN CANNERS LIMITED

ADVERTISING EXPENDITURES

Six Years Ended February 28, 1961 to February 28, 1966 Inclusive

	1960–61	1961–62	1962–63	1963–64	1964–65	1965–66
	$	$	$	$	$	$
Annual Advertising Expense	1,548,657	1,482,855	1,465,051	1,761,654	2,068,825	1,826,428
% of Gross Sales	3.7%	3.6%	3.4%	3.8%	4.1%	3.4%
Detail of Advertising Expense						
1. National—Magazines, Newspapers	358,345	256,834	236,122	223,432	661,911	552,530
2. Regional—Television	—	—	161,133	58,598	—	—
3. Regional—Radio	145,608	242,521	115,120	240,895	66,379	113,618
4. Regional—Newspaper	224,678	18,405	18,977	164,417	169,319	78,834
5. Other Advertising	291,530	309,476	287,156	359,755	424,694	253,584
Total Domestic	1,020,161	827,236	818,508	1,047,097	1,322,303	998,566
6. Foreign Advertising	24,860	25,842	20,846	58,861	46,483	49,625
7. Co-operative Advertising	503,636	629,777	625,697	655,696	700.039	778,237
Total Advertising	1,548,657	1,482,855	1,465,051	1,761,654	2,068,825	1,826,428

Exhibit 3

CANADIAN CANNERS LIMITED

RAW PRODUCT COSTS PER TON

Pack Years 1960 to 1966 Inclusive

	1960	1961	1962	1963	1964	1965	1966	% Change 1966 over 1960	% Change 1966 over 1965
	$	$	$	$	$	$	$	%	%
Peaches									
Grower's Price—									
Jubilees, Elbertas.........	105.50	94.50	105.50	103.50	111.50	125.50	125.50	19.0	—
V's........................	105.50	89.00	100.50	98.50	106.50	120.50	120.50	14.2	—
Average..............	105.50	93.26	104.78	102.87	110.72	124.05	124.62	18.1	0.5
Laid down cost at Plant....	114.08	100.38	114.38	112.95	122.09	134.81	134.38	17.8	− 0.3
Tomatoes									
Grower's Price—									
No. 1 Grade..............	41.50	41.50	41.50	41.50	41.50	45.00	48.95	18.0	8.8
No. 2 Grade..............	25.50	25.50	25.50	25.50	25.50	29.00	32.95	29.2	13.6
Average..............	36.42	35.70	36.32	36.96	36.52	40.13	44.13	21.2	10.0
Laid down cost at Plant....	38.84	36.92	37.16	37.63	37.80	40.69	44.95	15.7	10.5
Peas									
Grower's Price..............	92.00	92.00	92.00	92.00	92.00	97.00	100.00	8.7	3.1
Laid down cost at Plant....	122.11	116.62	115.55	116.42	114.65	112.04	123.41	1.1	10.1
Corn									
Grower's Price..............	26.00	26.00	26.00	26.00	26.00	27.00	28.00	7.7	3.7
Laid down cost at Plant....	28.15	28.37	27.42	27.74	27.40	28.71	30.02	6.6	4.6
White Beans									
Purchase Price..............	143.25	145.40	150.88	153.20	158.20	156.50	178.10	24.3	13.8
Laid down cost at Plant....	145.25	147.40	152.88	155.20	160.10	158.40	180.00	23.9	13.6

Exhibit 4

CANADIAN CANNERS LIMITED

SELECTED ITEMS FOR COMPARISON OF CHANGE IN CONTAINER AND PACKAGING MATERIALS PRICES

Pack Years 1960—1966 Inclusive

(1960=100)

	1960	1961	1962	1963	1964	1965	1966	% Change 1966 over 1960	% Change 1966 over 1965
								%	%
Containers									
15 Fl. oz. Size Can..........	100.0	102.0	103.5	103.5	105.8	108.0	110.1	10.1	2.0
20 Fl. oz. Size Can..........	100.0	100.9	102.4	102.4	104.6	106.8	109.7	9.7	2.7
11 Fl. oz. Catsup Bottle.....	100.0	106.9	106.9	106.9	110.2	110.2	114.8	14.8	4.2
24 Fl. oz. Jam Can..........	100.0	100.0	100.0	100.0	102.2	105.6	108.5	8.5	2.8
Corrugated Cases (C.C.L. Specifications and Printing)									
For 24—15 oz. Cans.........	100.0	102.1	102.1	104.6	103.8	103.8	103.8	3.8	—
For 24—20 oz. Cans.........	100.0	102.2	102.2	102.2	100.8	100.8	102.8	2.8	2.0
For 24—11 oz. Catsup Glass.	100.0	100.0	100.0	97.6	97.6	108.0	112.0	12.0	3.7
For 12—24 oz. Jam Cans....	100.0	100.0	103.5	103.5	103.5	107.8	110.2	10.2	2.2
Total Container and Packaging Material Cost									
% of Manufacturing Cost....	35.3%	34.5%	36.2%	36.0%	35.9%	36.5%			

Exhibit 5

CANADIAN CANNERS LIMITED

SELLING PRICES OF SELECTED PRODUCTS
1965 and 1966
(Per Case)

	24/15 oz. Peaches Cho. Hvs. F.O.B. Toronto		24/15 oz. Bart. Pears Choice F.O.B. Toronto		24/20 oz. Corn C.S. Cho. F.O.B. Toronto		24/15 oz. Peas Choice F.O.B. Toronto		24/20 oz. Peas Cho. F.O.B. Toronto		24/28 oz. Tomatoes Choice Whole F.O.B. Toronto	
	1965	1966	1965	1966	1965	1966	1965	1966	1965	1966	1965	1966
	$	$	$	$	$	$	$	$	$	$	$	$
January	4.90	5.35	5.65	6.25	4.00	4.20	3.30	3.10	4.10	4.40	6.90	7.00
February	4.90	5.35	5.65	6.25	4.00	4.20	3.45	3.60	4.25	4.40	7.20	7.00
March	4.90	5.60	5.75	6.25	4.00	4.20	3.45	3.60	4.25	4.40	7.20	7.00
April	4.90	5.60	5.75	6.25	4.00	4.20	3.45	3.60	4.25	4.40	7.20	7.00
May	4.90	5.60	5.75	6.25	4.00	4.20	3.45	3.60	4.25	4.40	7.20	7.00
June	5.05	5.60	5.75	6.25	4.00	4.20	3.45	3.60	4.25	4.40	7.20	7.00
July	5.20	5.60	6.00	6.25	4.00	4.20	3.60	3.60	4.25	4.40	7.20	7.00
August	5.20	5.60	6.00	6.25	4.00	4.20	3.60	3.80	4.40	4.60	6.50	7.00
September	5.35	5.00	6.00	6.25	4.00	4.40	3.60	3.80	4.40	4.60	6.50	6.85
October	5.35	5.55	6.00	6.00	4.00	4.40	3.60	3.80	4.40	4.20	7.00	7.00
November	5.35		6.25		4.20		3.60		4.40		7.00	
December	5.35		6.25		4.20		3.60		4.40		7.00	

Exhibit 5 (cont'd)

CANADIAN CANNERS LIMITED

SELLING PRICES OF SELECTED PRODUCTS
1965 and 1966
(Per Case)

	24/20 oz. Tomato Juice Fancy F.O.B. Toronto Frt. Allow. S. Ont.		24/11 oz. Catsup F.O.B. Toronto		24/15 oz. B.B. Beans F.O.B. Toronto Frt. Allow. S. Ont.		12/24 fl. oz. Strawberry Jam Pure F.O.B. Vancouver		48/10 oz. Tomato Soup Delivered Southern Ontario		48/10 oz. Vegetable Soup Delivered Southern Ontario	
	1965	1966	1965	1966	1965	1966	1965	1966	1965	1966	1965	1966
	$	$	$	$	$	$	$	$	$	$	$	$
January	3.45	3.15	4.35	3.85	3.75	3.45	6.55	7.70	4.54	5.45	5.60	5.60
February	3.65	3.15	4.35	3.85	3.75	3.95	6.55	7.70	5.45	5.45	5.60	5.60
March	3.65	3.15	4.35	4.35	3.75	4.20	6.35	7.70	5.45	5.45	5.60	5.60
April	3.65	3.15	4.35	4.35	3.25	4.20	6.35	7.70	5.45	5.45	5.09	5.60
May	3.65	3.15	4.35	3.96	3.75	3.95	6.35	7.70	5.45	5.45	5.60	5.60
June	3.65	2.95	4.35	3.96	3.25	3.70	6.35	7.70	5.45	5.45	5.60	5.60
July	3.65	3.40	4.35	4.60	3.75	3.70	7.20	7.70	5.05	5.05	5.60	5.60
August	3.35	3.40	4.35	4.60	3.75	4.20	7.20	7.70	5.05	4.90	5.60	5.30
September	2.90	3.40	4.35	4.60	3.75	4.20	7.20	6.95	5.05	5.05	5.30	5.30
October	2.90	3.40	4.35	4.19	3.25	3.70	7.20	6.95	5.05	5.05	5.30	5.30
November	3.15		4.35		3.75		7.70		5.45		5.30	
December	3.40		4.35		3.95		7.70		5.45		5.30	

Exhibit 6

PRICE INDEXES

COMPARISON BETWEEN THE MONTH OF JULY IN 1964, 1965 AND 1966

	July 1964	July 1965	1965 Change over 1964	July 1966	1966 Change over 1965
			%		%
I. *Industry Selling Price Index* (1956 = 100)					
Fruits and Vegetables Preparations Industry.	112.6	111.8	−0.7	115.8	3.6
Jams	122.7	114.0	−7.1	115.2	1.1
Corn, Creamed, Whole Grain	126.7	118.0	−6.9	120.6	2.2
Peaches Canned	121.6	128.5	5.7	138.5	7.8
Peas Canned	106.8	108.1	1.2	111.3	3.0
Soups Canned	101.0	100.5	−0.5	103.6	3.1
Tomato Juice Canned	118.8	125.2	5.4	124.6	−0.5
II. *Consumer Price Index* (1949 = 100)					
All Items	136.2	139.5	2.4	144.3	3.4
Food	135.4	139.0	2.7	146.0	5.0
Canned Fruit	137.9	131.0	−5.0	132.4	1.1
Canned Vegetables	140.0	144.6	3.3	149.9	3.7
III. *Average Retail Prices for Canada* (1949 = 100)					
15 oz. Peaches Hvs. Cho	128.8	131.8	2.3	147.1	11.7
15 oz. Pears Cho	105.3	106.1	0.8	117.4	10.7
20 oz. Cream Style Corn Cho	123.7	120.0	−3.0	125.2	4.4
15 oz. Peas Cho	126.3	129.0	2.2	132.5	2.7
10 oz. Vegetable Soup	123.3	122.5	−0.7	127.5	4.0
28 oz. Tomatoes Cho	158.3	175.5	10.9	178.6	1.8
20 oz. Tomato Juice Fancy (1960 = 100)	114.8	122.6	6.8	121.9	−0.5
11 oz. Tomato Catsup (1960 = 100)	105.2	105.2	—	109.6	4.2
15 oz. Beans with Pork in Tomato Sauce	145.0	147.9	2.0	164.6	11.3
2 lb. Strawberry Jam	146.8	134.7	−8.2	137.3	1.9

SOURCE: Prices and Price Indexes (Cat. 62–002)
Prices Division
Dominion Bureau of Statistics

Exhibit 7

CANADIAN CANNERS LIMITED

SELECTED ITEMS FOR COMPARISON OF COSTS BASED ON 1966 COSTS AS A % OF TOTAL COST

	24/15 oz. Peaches Cho. Hvs.	24/15 oz. Bart. Pears Cho. Hvs.	24/20 oz. C.S. Corn Choice	24/20 oz. Peas Choice	24/15 oz. Peas Choice	48/10 oz. Tomato Soup	24/28 oz. Whole Tom. Choice	24/20 oz. Tom. Jce. Fancy	24/11 oz. Catsup	24/15 oz. B.B.Beans with Pork in T.S.	12/2 lb. Pure Strawberry Jam
	%	%	%	%	%	%	%	%	%	%	%
Cost of Manufacture											
Raw Product	33.7	37.4	22.1	27.9	25.8	27.1	26.9	24.8	22.7	19.3	46.4
Other Direct Materials	5.1	4.0	4.6	1.6	1.4	6.1	0.2	0.1	11.4	9.1	15.0
	38.8	41.4	26.7	29.5	27.2	33.2	27.1	24.9	34.1	28.4	61.4
Containers—											
Cans	17.9	16.2	25.9	27.3	27.8	29.5	23.5	33.7	25.0	27.8	14.2
Corrugated Cases	1.9	1.7	2.7	2.8	3.0	2.7	2.5	3.5	4.9	3.0	1.3
Labels	1.5	1.3	2.1	2.2	2.4	2.0	1.8	2.6	1.0	2.3	0.9
	21.3	19.2	30.7	32.3	33.2	34.2	27.8	39.8	30.9	33.1	16.4
Wages—											
Processing	9.8	8.8	6.2	2.8	3.2	3.3	12.2	2.2	3.0	3.6	2.4
Labelling and Casing	1.5	1.2	2.2	2.3	2.9	1.5	1.2	2.0	3.7	1.6	1.3
Warehousing and Shipping	0.3	0.3	0.4	0.4	0.5	0.4	0.3	0.6	0.7	0.5	0.5
	11.6	10.3	8.8	5.5	6.6	5.2	13.7	4.8	7.4	5.7	4.2
Repairs and Maintenance	2.6	2.4	3.4	3.6	3.3	1.8	2.1	2.1	2.4	2.7	0.5
General Overhead	7.0	8.8	8.7	7.5	7.1	4.9	8.2	5.3	4.8	5.0	2.0
Depreciation	1.2	1.1	4.3	2.8	2.6	1.2	1.4	1.4	1.4	0.6	0.4
	10.8	12.3	16.4	13.9	13.0	7.9	11.7	8.8	8.6	8.3	2.9
Total	82.5	83.2	82.6	81.2	80.0	80.5	80.3	78.3	81.0	75.5	84.9
Selling Expense											
Cash Discount	1.4	1.4	1.3	1.4	1.4	1.5	1.5	1.4	1.4	1.6	1.1
Advertising and Promotion	3.9	3.9	3.8	3.9	4.2	4.2	4.3	3.9	4.0	4.5	3.1
Volume Incentive	1.0	0.9	1.2	1.2	1.5	1.1	0.8	1.5	1.3	1.6	3.5
Brokerage and Field Sales	2.6	2.5	2.4	2.5	2.7	2.7	2.8	2.5	2.6	3.0	2.0
Selling Administration	1.2	1.1	1.1	1.1	1.2	1.2	1.3	1.2	1.2	1.4	0.9
Freight and Storage	2.6	2.3	3.0	4.0	3.9	3.7	3.8	6.5	3.7	6.9	0.7
	12.7	12.1	12.8	14.1	14.9	14.4	14.5	17.0	14.2	19.0	11.3
General Administration Expense (Including Interest)	4.8	4.7	4.6	4.7	5.1	5.1	5.2	4.7	4.8	5.5	3.8
Total Cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Exhibit 8

CANADIAN CANNERS LIMITED

COMPARISON OF LABOUR RATES PER HOUR FOR SEVEN YEARS 1960—1966 INCLUSIVE

	1960	1961	1962	1963	1964	1965	1966	% Change 1966 over 1960	% Change 1966 over 1965
	$	$	$	$	$	$	$	%	%
Plant A									
Job Class X	1.65	1.72	1.76	1.80	1.94	2.09	2.19	32.7	4.8
Seasonal Rate/Hr.									
Male	.95	1.00	1.00	1.00	1.10	1.25	1.40	47.4	12.0
Female	.80	.85	.85	.85	.85	1.00	1.13	41.3	13.0
Plant B									
Job Class Y	1.50	1.55	1.65	1.70	1.83	1.94	2.05	36.7	5.7
Seasonal Rate/Hr.									
Male	1.00	1.00	1.00	1.00	1.10	1.25	1.35	35.0	8.0
Female	.85	.85	.85	.85	.95	1.00	1.10	29.4	10.0

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF

THE SPECIAL JOINT COMMITTEE OF THE SENATE

AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 15

MONDAY, NOVEMBER 7, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Burns Foods Limited: Mr. A. J. E. Child, President;
Mr. R. W. Wiles, Plant Manager, Calgary.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25081—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, Joint Chairman

the Honourable Senators

Carter,
Croll,
Deschatelets,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Duquet,
Gray,
Irvine,
Leblanc (*Laurier*),
Lefebvre,
MacInnes,
Mandziuk,
McCutcheon,
McLelland,
Nasserden,
Olson,
Otto,
Ryan,
Scott (*Danforth*),
Smith.
Whelan—(24).

36 members

Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the

25081—1½

problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—
The question being put on the motion, it was—
Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

MONDAY, November 7, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 3.00 P.M.

Present: For the Senate: The Honourable Senators Carter, Croll (*Joint Chairman*), Deschatelets, Hollett, Inman, McGrand and Thorvaldson—7.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), Crossman, Mandziuk, Smith and (*Mrs.*) MacInnis—6.

In Attendance: Dr. R. Warren James, Special Assistant; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant; Mr. John J. Urie, Q.C., Counsel.

The following were heard:

Burns Foods Limited:

A. J. E. Child, President.

R. W. Wiles, Plant Manager, Calgary.

At 5.40 P.M. the Committee adjourned until Tuesday, November 8, 1966, at 9.30 A.M.

Attest.

Patrick J. Savoie,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Monday, November 7, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 3 p.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: Order, please. We have a quorum. Before we proceed I should say that some time ago we asked the Department of Agriculture to supply us with certain information, and I would now like to place on the record the information the department forwarded with respect to the following: hog prices; the monthly average for choice steers with respect to prices and the price index; the monthly average wholesale and retail selling prices of fresh and processed fruits and vegetables January-September, 1966, in cents per pound; potato production costs—New Brunswick, and the "Anatomy of a Pig".

These will be filed as appendixes to these proceedings.

(See Appendixes "H", "I", "J", "K" and "L".)

On October 27 when Atlantic Wholesalers Limited were here, they were asked to give us the beneficial owners of the Harbour Investments Limited, which was the holding company, and after some telephoning a wire was sent to Mr. John P. Palmer, Q.C., 40 Charlotte Street, St. John, New Brunswick, dated November 2, 1966. It reads as follows:

> Re Harbour Investments Limited stop Please provide Joint Committee Senate and House of Commons on Consumer Credit with full details of shareholdings of all beneficial owners of the shares of captioned company. Information required immediately.

That was signed by myself and my Co-Chairman, Mr. Basford. A wire came back in reply dated November 4, reading as follows:

> Re Harbour Investments Ltd your telegram received November third stop Am advised all shares Harbour Investments Ltd beneficially owned by Food Markets Holdings Limited a wholly owned subsidiary of Loblaw Groceterias Co. Limited J. P. Palmer.

We have today a brief from Burns Foods Limited. Mr. A. J. E. Child, the president, is on my immediate left, and next to him is Mr. W. Wiles, Toronto Plant Manager. I will call on Mr. Child to address the committee.

Mr. A. J. E. Child, President, Burns Foods Limited: Honourable members of the committee, Burns & Co. Limited—called Burns Foods Limited since 1964—was incorporated in 1928, as a continuation of a meat packing business begun by the late Senator Patrick Burns in the middle of the 19th century. Originally based in western Canada, operations of the company now extend

from coast to coast. The bulk of manufacturing operations is carried on in the three prairie provinces because of the concentration of live stock in that area. Appendix A shows the location of company operations.

The officers of the company are: A. J. E. Child, President; G. A. Knechtel, Secretary-Treasurer; and J. M. Adam, Controller.

In addition, there are general managers at Calgary for sales, production, pork and beef operations. Daily control of operations rests with the managers of the seven meat packing plants. There was a change in control of the company n April of 1964, following which wide-sweeping organizational and operational changes were made, largely on the advice of management consultants. The net profit in the year ending 31 December, 1964, was $988,670, but in 1965 this dropped to $254,345. In 1965 depreciation was lower by $713,007 than would have been the case under previous practice, so in effect, on the basis of previous practice, the company lost $458,662 in its 1965 year.

The loss in part was due to the drastic reduction in the supply of hogs, especially in western Canada, which began in 1965. The pattern of hog marketing was as follows (in numbers of hogs):

	Eastern Canada	Western Canada
1964—First Quarter	1,187,200	650,300
Second Quarter	1,118,100	674,500
Third Quarter	1,079,400	576,700
Fourth Quarter	1,129,900	720,600
1965—First Quarter	1,150,300	804,200
Second Quarter	1,046,700	754,100
Third Quarter	1,062,000	582,800
Fourth Quarter	1,067,000	609,900
1966—First Quarter	1,076,471	614,483
Second Quarter	1,023,630	618,001
Third Quarter	1,078,855	546,764

The recent reductions in marketings can be highlighted as follows:

	Eastern Canada	Western Canada
First three quarters—1965	3,259,000 hogs	2,141,100 hogs
First three quarters—1966	3,178,956 hogs	1,779,248 hogs

The drop obviously was more severe in the west.

There is already surplus capacity in the industry of at least 25 per cent. This means lack of revenue to offset the costs of idle facilities. It also increases competition between meat packing companies for the available live stock and the available sales, because obviously any company which can reduce its idle facilities will have an advantage. This competition results in unrealistic prices for live stock and in selling prices that are too low, by perhaps 1 or 2 cents a pound either way. Burns has suffered from this profit squeeze since the middle of 1965. In addition, some of the organizational changes made did not prove successful.

As a result of the difficulties encountered by the company, I was asked to assume the presidency in April of this year. In this short time my efforts have been directed at strengthening the organization, reducing expenses, and improving the efficiency of the sales forces. It is too soon to know whether my efforts will once more make Burns a profitable company.

The need for profitable meat packing companies is obvious. Live stock must be manufactured into meat for the nation, and for shipment abroad. Only

profitable companies can do an efficient job; otherwise there is no money for improvement of techniques, cost-reducing equipment, research, superior management, and educational advertising. An inefficient meat packing industry results in lower prices for live stock to farmers, and higher prices of meats to consumers. The meat packing industry needs a net profit of at least two per cent on sales. This is far from being achieved.

The meat packing industry as such should not be confused with the total business of some meat packing companies who engage in a variety of non-meat activities, chiefly because these other operations are more profitable than meat. This brief confines itself strictly to meat packing, which means the slaughtering of cattle, calves, lambs and hogs, and the manufacturing of meats and by-products. Unlike the steel companies, for example, the meat packing industry does not own or control its sources of supply. Neither does it own or control any of the retail outlets which sell directly to the consumer. This poses the great problem of the meat packer. He is in between the opposing forces of supply and demand, and only by the greatest skill and efficiency can he make a profit. North America is strewn with the wrecks of meat packing companies which paid too much for their raw material or charged too little for their products, or whose expenses were too high in relation to available gross margins.

The mathematical facts of the industry are fairly well known. On each dollar of sales, about 77 cents goes back to the farmer. Wages and salaries take about 11 cents. Packages and supplies cost about 5 cents, and overhead about 7 cents. If there is any profit, it is not more than ½ cent out of the sales dollar. Those companies which show a net profit of about 1 per cent derive more than half their earnings from non-meat activities.

This means that there is about 23 cents out of each sales dollar of the meat packing industry which comes either from the farmer or the consumer. If it were less both might benefit, because the farmer might get more for his live stock and the consumer might pay less for meat. Conversely, if this spread were greater, both suffer.

It is obviously not good enough to say that the removal of profit entirely from the meat packing industry would scarcely be noticed by the housewife in the prices she pays for meat. Today any well-informed individual or group knows this. Trade unions, farm organizations and consumers' associations no longer raise an outcry about the profits of the packers. Instead, there are two places to look for efforts on prices. One is the cost of the stock. When it rises, so do meat prices. The other is the cost of operating meat packing plants.

A rise in the price of live stock automatically causes higher meat prices, because the spread of meat packing costs is fairly constant. In the 36 years that I have been in the industry it has stayed between 20 and 25 per cent. If one lives in western Canada, as I do, there cannot be any quarrel with higher prices for cattle and hogs. I do not know anybody who has made a fortune from live stock. Farm operations, it is true, are often on a large scale but so are the accompanying bank loans. The farmer has been under increasing pressure from lack of help, higher wages, higher costs of machinery and supplies, and higher taxes. Too many people are unaware that farmers pay taxes on their land and that large acreages are sometimes a mixed blessing.

As world demand for meat grows, and as industrial and housing needs encroach on farm land, the price of live stock is bound to rise. With cattle, rising demand would be reinforced by dwindling supplies. There might, however, be a break-through in hogs. Large-scale automated hog production could parallel the achievements in poultry, resulting in higher production and lower costs. An increase in large-scale commercial cattle feeding would also help to reduce costs. One of the limiting factors is the short supply of animal husbandry graduates, because this is no job for amateurs or incompetents.

Turning to the costs of meat packing operations, wages and salaries are the largest element. The annual reports of Burns show that wages and salaries, as a percentage of sales, have increased from 10.05 per cent in 1950 to 13.69 per cent in 1963. I omit 1964 and 1965 because the annual reports for those years do not give this information. The average wage in the major companies at the start of this year was about $2.50 per hour. As a result of the recent contract settlements, this has risen to $2.75 per hour. (See Appendix C for the wage pattern since 1955). There will be further substantial contractual settlements in 1967 and 1968. Fringe benefits for medical, hospital, vacation, pension and other items amount to an additional 25.7 per cent of payroll or a total average labour cost of $3.46 per hour. As a result of the settlement with the union, salaries of clerical staff, foremen, salesmen and others will certainly have to be raised. In 1967 this will probably add at least $2,500,000 to the cost of operations in Burns. This means that, if the meat packing industry has a social obligation to hold down its costs, then it must persevere to introduce more automation and more efficiency. The introduction of more automation is being impeded by lack of profits, the only place where the money can come from. The investment community is not generally willing to put new money into the meat packing industry, because the risks are too great and profits too low.

The cost of packages and supplies is an important element in the spread, and it has been rising over the last thirty years. I do not know whether we can blame this all on the demands of the housewife. In part, health considerations are a factor. Meat is not only a perishable product, but it can quickly acquire harmful organisms. The public must be protected. The slicing and packaging of meats in our factories is cheaper than doing it in retail establishments. Elaborate package design is costly even though it may increase total meat consumption, to the benefit of the farmer. The most costly meat packages are those which preserve meat in a vacuum, to prolong counter life. This is not as necessary in city supermarkets as it is in remote places with slow turnover. Smaller package sizes also increase cost. We do not know whether the housewife wants these as a convenience or whether she wants to spend a smaller amount of money on the item. Appendix B gives representative package costs per pound.

The recent bacon package change forced on our industry was costly, and a waste of money. It was claimed that the previous packages were deceptive and prevented the housewife from finding the leanest package of bacon in a counter. The new packages show more bacon but do not solve the problem. The housewife will never find a truly lean package of breakfast bacon, because there is no such thing. The ideal slice of bacon should have the right combination of fat and lean. If the housewife wants this ideal combination she can get it by buying any No. 1 brand of bacon. If she buys a No. 2 or No. 3 brand she will either get too much fat or too much lean, meaning that the poor pig was not properly brought up.

A fairly recent phenomenon is the obvious preference of consumers for bacon over ham. During most of this year smoked ham has been a bargain for the housewife in relation to other smoked meats. This is very much against the traditional pattern. Flavour may be part of the answer. Packers have done much recently to improve the flavour of bacon, and our own firm has up-graded its selection. (That is, we have lowered the percentage of slices going into first grade, thus giving somewhat more uniform slices). On the other hand, nearly all packers in North America are producing hams with a more bland flavour than was the case some years ago. It is claimed that this is what the housewife wants. Personally, I doubt it, and we may now be paying the penalty in the form of slow prices for hams.

Advertising adds very little to cost in meat packing. Most companies cannot afford it, and I think most of us feel that it is somehow wrong to add

advertising to the cost of a basic essential such as meat. Burns at the present time is doing no national advertising whatsoever. I would like to see the industry undertake some educational advertising, because the average housewife is less than knowledgeable about meat. We should also promote our products in the United States, but this would be a very expensive undertaking which the industry certainly could not contemplate at the present time. It is something to think of for the future; greater exports of our bacon and ham to the U.S.A. would help our exchange position, and any profit thereon would help to lower the cost of meat to Canadians.

The remaining cost element is overhead. For the purpose of this brief, overhead covers administration, selling, clerical work, services, utilities, and so forth. Individual companies have their own ideas as to how much they should spend in this area. My aim for Burns is to have the lowest overhead cost per pound in the industry. The reason is entirely selfish. Burns cannot become a successful company unless it is efficient in the control of its overhead. The industry, however, is not frivolous with its overhead dollars; there are no frills in our plants and offices. You need only visit a meat packing plant to find this out.

The relationship of the prices of live animals to meat products is always puzzling to the layman. While the arithmetic may become complicated as one develops the costing of more and more end products, the principles are simple.

The first consideration is that a steer or a hog is really a shell, inside of which is a lot of liquid and material of low value. When a commercial grade steer is slaughtered, only about half the live weight of the animal ends up in the cooler as a carcass of beef. This automatically multiplies the price by two. That is, a steer costing 20 cents per pound alive costs 40 cents a pound as a carcass of beef. Then let us assume that 35% of the carcass is bone and undesirable fat. The edible meat cost therefor becomes 61.5 cents a pound. Only one further assumption is necessary. Of the edible meat, a large portion is in less desirable cuts, such as flanks, plates and shank meat. If this is 25 per cent of the edible meat, and the public will pay an average of only 30 cents a pound for it, then the remaining 75 per cent in this illustration will cost 71.7 cents per pound. And of course, public demand for the most desirable cuts, which are a small percentage of the total, will create a further differential over the average of 71.7 cents. This is admittedly a simplified and hypothetical illustration, ignoring labour costs and credits for by-products, but the principle is correct. The foregoing illustration covers beef in the fresh state only. When meat is cured, smoked, or cooked, it incurs labour, materials, and packaging costs. This leads us to a consideration of pork products.

Again, the principle is simple. A live hog weighing 200 pounds becomes a carcass weighing 155 pounds. At a live cost of 25 cents per pound, the carcass cost is 32.26 cents per pound.

Of the carcass of 155 pounds, head, feet and fats are removed, leaving five marketable cuts. In trade terms these are called hams, bellies, backs, butts and picnics. They weigh about 94 pounds. Remember that the farmer received $50.00 for this hog. If the head, feet and fats are worth about $11.00, then the 94 pounds of marketable cuts are collectively worth $39.00, or 41.49 cents per pound, as fresh pork, bone in.

The next point may be difficult to grasp. The average cost of all the cuts in this hypothetical illustration is 41.49 cents per pound. But, we know that some cuts are considered more valuable than others. Hams and loins have less bone than shoulders and picnics. Bellies (from which breakfast bacon comes) have more fat than any other cut. This differential in values is set by the public, and it keeps changing. The public will always pay a lot more for back bacon than for any other pork item. Sometimes it will pay more for ham than for breakfast bacon. Recently the reverse has been true. We in the industry, with thousands

of transactions per day, can translate these preferences into mathematical terms, as follows, using a carcass cost of 32.25 cents per pound.

	Weight per Hog	Per cent	Cents per lb. Differential	Cost per lb.
Hams	31.46	20.3	32	$37.04
Bellies	21.70	14.0	28	41.04
Backs	14.42	9.3	0	69.04
Butts	10.70	6.9	28	41.04
Picnics	15.65	10.1	41	28.04
	93.93	60.6		

To arrive at the above:

(a) Cost of carcass, per pound	$ 32.25
(b) Subtract value of by-products, per lb.	6.90
	$ 25.35

(c) Multiply percentages by differentials:

Hams	20.3 × 32 = 6.50	
Bellies	14.0 × 28 = 3.92	
Backs	9.3 × 0 = —	
Butts	6.9 × 28 = 1.93	
Picnics	10.1 × 41 = 4.14	16.49

(d) Add to net carcass value to bring all cuts to value of backs	$ 41.84
(e) Divide by sum of percentages (60.6) to get cost of backs	69.04
(f) Subtract differentials to calculate cost of other cuts.	

This is where you begin to see that one cut costs more than another and you begin to see that some cuts cost more than the cost per pound of the hog carcass. This is at the fresh pork stage. As pork is processed (cured, smoked, sliced, packaged), the following factors must be added:

1. The costs of:
   Labour
   Materials (for curing, smoking, etc.)
   Packages
   Overhead

2. The cost of selection. This means that selecting for first grade product adds to cost, because second and third grades command lower prices.

3. The cost of boning, trimming and de-fatting. These products are not wasted, but their value is low. Thus, a boned and trimmed ham costs nearly twice an ordinary ham.

Using the hog cost of this illustration, the cost of first grade No. 1 sliced breakfast bacon would be calculated as follows, in cents per pound:

1. Cost of fresh belly, ungraded, untrimmed as per illustration per pound	$ 41.04
2. Add differential to bring to value of commercial trim belly	7.96
3. Value of commercial trim belly, as of 24 October, 1966	$ 49.00
4. Deduct value of trimmings and fats to produce belly for slicing ..	4.39
	$ 44.61

5. Divide by resultant yield (75.5%)	59.08
6. Add labour cost, cutting and trimming	.76
	59.84
7. Reduce by curing grain (10%)	54.40
8. Curing materials, labour and overhead	2.08
9. Cost of cured belly	56.48
10. Smoking shrink (9%); divide by 91	62.07
11. Labour and overhead	3.45
12. Cost of smoked belly	65.52
13. Chilling shrink (2%); divide by 98	66.85
14. Transfer to slicing department at this stage	
15. Value of trimmings and down-grading	2.57
	64.28
16. Divide by 92% yield (No. 1 and No. 2 bacon)	69.87
17. Labour and overhead	8.56
18. Supplies and packages	5.28
19. Cost of 1 lb. sliced side bacon, No. 1 grade	83.71

Appendix D gives the relationship between costs and selling prices of sliced bacon since the first of July, 1966.

The determination of selling prices in the meat packing industry is not a precise mathematical exercise. There is no such thing as a mark-up added to costs, and in any case many costs change daily. Rather each department manager (beef, pork, smoked meats etc.) sets selling prices each week at what he thinks will cover his costs and make some profit. The pattern of prices seems to be partly traditional, partly a matter of merchandising mix, and partly the state of public demand at any one time. Normally beef prices contain very little contribution, if any, to overhead; processed products may carry full overhead. Even at that, nobody knows just how much overhead any particular product should bear. The only known figure is the total overhead of the plant; distribution of overhead between departments is subject to arbitrary decisions.

The selling prices given to salesmen each week are not necessarily achieved. Salesmen have the privilege of "trading". That is, they may make sales at lower prices than their list prices. Their job is simply to achieve a certain volume of sales at a total profit. It may be expedient to sacrifice a profit on one item in order to make a profit on another. Or, market conditions may have changed since the list was published. In any case, meat products are perishable. They are produced in expectation of sale, not to firm orders. Any unexpected reduction of sales will prompt a department manager to lower prices in order to sell the product before it becomes stale. There is an axiom in the industry: "first loss is best loss".

The conclusion of this brief might be that fluctuations in meat prices charged by the meat packing industry bear a direct relationship to fluctuations in the prices paid for live stock. Therefore, undue downward pressure on meat prices at our level will work a hardship on the farmer. The spread between live stock prices and wholesale meat prices changes little from year to year, and

apparently runs between 20 and 25 per cent of selling prices. Of this spread, the largest item is wages and salaries, which have been increasing precentagewise. The relative cost of packages has also been increasing. As to the profit margin taken by the meat packing industry, it is wholly inadequate and it is my task in life to try to improve it. In fact, it is my duty to our 5,000 employees. Only a profitable company is a safe company to work for.

I might add that the government of this country is quite properly concerned that food prices appear to have risen unduly in recent months and I think there will be worthwhile results from this inquiry. However, speaking as an economist rather than as a meat packer, I wonder if we are in danger of losing our perspective, simply because food prices attract everyone's attention. For several years now we have been in an inflationary phase of the business cycle, begun by a conscious desire to exploit fully our plentiful natural and human resources. As a consequence, we are today an affluent society. It is a sign of our times that luxury automobiles are being sold in unprecedented numbers, at high prices which nobody protests. Moreover, it is nothing to find such automobiles loaded with $500 worth of extras. This is surely not an economy in distress. On the contrary, it is a situation that this country has been striving for.

Prices are high today because of unusual consumer demand. Nearly everybody has a job, even many wives, at the highest wages and salaries in our history. As a result, there is the highest demand in our history for automobiles, expensive vacations, luxury home furnishings, and convenience foods in costly packages that are sold in splendidly-equipped supermarkets. My concern is that nothing will happen to shatter this continuing increase in the productivity of our country, and that no segment of our population will fail to benefit from it.

Co-Chairman Senator CROLL: Perhaps now the members of the committee would take a minute or two to look at the various appendices. I will start the questioning with Mr. Urie.

Mr. URIE: Mr. Child, I noticed in your presentation that you referred to the fact that your company has three wholly owned subsidiaries.

Mr. CHILD: Two.

Mr. URIE: Excuse me, two. They are Palm Dairies Limited and Scott National Company Limited, and quite properly you give the breakdown in sales of each. You have not as other companies have before us, given us the percentages of net profits in relation to sales in each of the subsidiaries as well as the parent company. I wonder if that could be made available to the members of the committee?

Mr. CHILD: Yes, it could.

Mr. URIE: I see in your financial statement, a copy of which you have furnished to me, at least, you have comparable figures for three years. I wonder if we could have the sales for your parent company and your subsidiaries for the three years 1963, 1964 and 1965?

Mr. CHILD: The same as I gave in the financial statement?

Mr. URIE: The same as in your financial statement, under the heading, "Financial Highlights."

Mr. CHILD: You want the first line, in other words, broken down between the three divisions of the company?

Mr. URIE: That is right.

Mr. SMITH: What does Scott National Company Limited deal with?

Mr. CHILD: Fruits and vegetables.

Mr. SMITH: Canned, frozen or fresh?

Mr. CHILD: Fresh and frozen, not canned.

Mr. URIE: Certainly Scott National Company Limited is not retail, but what about Palm Dairies Limited? Is it retail?

Mr. CHILD: No, wholesale.

Mr. URIE: Wholly wholesale?

Mr. CHILD: Yes.

Mr. URIE: Does your company have any investment in any other companies in the food business, or other businesses, either as partial shareholder or an ordinary interest or controlling interest of otherwise?

Mr. CHILD: Not that I know of.

Mr. URIE: Do you own any primary producers such as poultry farms, ranches, hog farms?

Mr. CHILD: No.

Mr. URIE: Nothing of that nature?

Mr. CHILD: No.

Mr. URIE: You made your purchases of meats in the normal fashion?

Mr. CHILD: We have about 3,000 cattle on feed. That is about the only area.

Mr. URIE: Where?

Mr. CHILD: In the west.

Mr. URIE: Do you have those on your own farms or ranches?

Mr. CHILD: We have about 1,500 in our own feed lot, and 1,500 in custom feed lots.

Mr. URIE: Is this a trend in your industry as far as your company is concerned—to start raising your own cattle?

Mr. CHILD: No. We have always raised cattle. I do not want to get out of perspective—

Mr. URIE: It is a very small percentage of the total?

Mr. CHILD: 3,000 cattle would not be half a week's slaughter.

Mr. URIE: Do you have any hogs in feed?

Mr. CHILD: We probably have some hogs on contract, a very small number.

Mr. URIE: What percentage of your total hog requirement would that be?

Mr. CHILD: It would be much less than one per cent—I would like to have more, but it is small.

Mr. URIE: On page 1 of your brief, in the third paragraph you say, "There was a change in control of the company in April of 1964 . . ." Who acquired the controlling interest of your company at that time?

Mr. CHILD: The late Alex Hill.

Mr. URIE: Mr. Hill was former President and Chairman of your board, I believe?

Mr. CHILD: Yes, he was.

Mr. URIE: I gather he died recently?

Mr. CHILD: In June of last year.

Mr. URIE: Did he beneficially own those shares or stock?

Mr. CHILD: That I do not know.

Mr. URIE: Who is the major shareholder in your company today?

Mr. CHILD: I would assume, the Hill Estate.

Mr. URIE: I notice that in 1964 the board was increased in size and Mr. G. E. Creber became a member of the board?

Mr. CHILD: Yes.

Mr. URIE: He is still a member of your board?

Mr. CHILD: Yes.

Mr. URIE: Is he the nominee of any particular group of shareholders?

Mr. CHILD: That I do not know. Like yourself, he is a lawyer. I think he was a friend of Mr. Hill's. I do not know whether you are aware that I have not been with the company very long, so I do not know much about these people.

Mr. URIE: Are you aware that Mr. Creber is also a member of the board of George Weston Limited? I was wondering whether this was indicative of the fact that the Weston firm had any investment in Burns Limited?

Mr. CHILD: I do not know. It has not impinged on me, anyway.

Mr. URIE: You are not aware of that personally?

Mr. CHILD: I do not think there is any connection.

Mr. URIE: I think I asked the question but I am not sure of the answer you gave. Have you any knowledge as to what group of shareholders Mr. Creber represents?

Mr. CHILD: No, I do not.

Mr. URIE: He is down as a solicitor, but there are several other solicitors on your board. We would like to have, Mr. Child, if it is possible, a list of the shareholders of your company holding in excess of 5 per cent of the total issued shares?

Mr. CHILD: I will be glad to get it. I have not seen it myself.

Mr. URIE: I understand, as a matter of fact—I have been given the information but I have not got it right in front of me—that Mr. Creber represents a company called Raytor. Have you any knowledge of that company?

Mr. CHILD: I have never heard of it.

Mr. URIE: May I refer again to page 1 of your brief, where you say that depreciation in 1965 was $713,000 less than it would have been under your previous accounting system, I gather—yet on your financial statement, under the heading "Financial Highlights," the depreciation charges for 1965 are shown to be almost identical with the depreciation charges in the two previous years, 1964 and 1965. Can you explain, then, your statement under paragraph 2 of your brief?

Mr. CHILD: In the interval there was a considerable increase in fixed assets of the company. There was a new plant built at Winnipeg, which cost around $4 million, and Palm Dairy built a new plant at Sudbury which cost one million dollars. So the depreciation under the previous practice should really have increased. The $2 million is shown the same here, round about $2 million, but it should have been higher in the 1965 year.

Mr. URIE: By reason of the depreciation charge on the new assets?

Mr. CHILD: Yes.

Mr. URIE: That explains that. Would that also account for the disappearance of funded debt from your financial statement for 1965, in comparison with the financial statements of the two previous years which I have. You will notice on the liability side, under the heading "Funded Debt" you had $1,944,000 but in the next year, debentures, 1965, there was none. At the same time, your bank loans increased very substantially.

Senator THORVALDSON: Have we copies available of the statement that Mr. Urie is using? Without it, this is all Greek to me.

(*Copy of statement passed to Senator Thorvaldson*).

Mr. CHILD: You are looking at page 9, Mr. Urie. Your question is?

Mr. URIE: I was asking you to account for the disappearance of the funded debt in the 1965 statement?

Mr. CHILD: That is, $1,944,000?

Mr. URIE: Yes?

Mr. CHILD: I think it goes over into the second item, current liabilities, under 1965, $2 million.

Mr. URIE: Naturally, the demand loans increased by $2 million and there is also bankers acceptances of $2 million. Was that whole $4 million applied in the increase of your fixed assets, the new plant in Winnipeg?

Mr. CHILD: I have not worked out the distribution of the funds expended. I would have to work it out, to answer that question.

Mr. URIE: What I am driving at is, what portion of your cash flow is diverted towards increase in assets during the period, and what portions are accountable for by your increased bank loans and the disappearance of your funded debt?

Mr. CHILD: We would have to do an analysis of working capital between the two years, to pick that up, which I could easily do.

Mr. URIE: I wonder if you might help us in that?

Mr. CHILD: Just looking at the fixed assets picture—

Mr. URIE: It would probably be under your application of funds statement?

Mr. CHILD: I am not really very familiar with these balance sheets.

Mr. URIE: Perhaps Mr. Wiles could help you.

Mr. CHILD: He is not in the accounting end of the business. I think this is your answer—on page 11: source and application of funds.

Mr. URIE: If there is anything else that you might wish to add, after further investigation, I wish you would pass it on.

Senator THORVALDSON: On this point of questioning, I wonder if Mr. Urie would find out the situation in respect of decreased depreciation in the year 1965 amounting to a very considerable figure. I think we ought to know how that came about, because it is a very vital factor in the statement for that year.

Mr. URIE: I thought I just covered that with Mr. Child a moment ago but perhaps he would explain it further?

Mr. CHILD: What was your question?

Senator THORVALDSON: Under what circumstances had you reduced your depreciation by $3 million for the year 1965?

Mr. URIE: If you look at the first page, "Financial Highlights", you will see that the annual dollars of depreciation is the same for the previous three years. You have not got the 1965 statement?

Mr. CHILD: Look at the one with the white cover. At page 11, "Notes to Consolidated Financial Statement," would you look at the first note there?

Senator THORVALDSON: Yes, that explains it, thank you.

Mr. CHILD: In other words, there was a change from a declining balance procedure, as you are familiar with, to a straight line basis.

Senator THORVALDSON: Yes, I recognize it now.

Mr. URIE: I have one or two other questions. In the year under review, the president's report, page 5 of your 1965 financial statement, your predecessor, I assume, mentioned that the total sales in the year were $200 million or an increase of 8.1 per cent. Your company's three divisions, all operated increased dollar sales, increased tonnage. The three divisions of the company were profitable during the past year. I take it you mean the dairy division, the meat division, and Scott National. All three operated on a profitable basis—and you are going to give us the relationship of that profit to sales, is that right?

Mr. CHILD: Yes.

Mr. URIE: Also, in your brief, on page 4, you mentioned that advertising adds very little to the cost in meat packing. I presume that you mean the standard forms of advertising through the various media, is that right?

Mr. CHILD: Yes.

Mr. URIE: There are other costs which you have not mentioned, I would think. There are marketing and selling costs which we would like to investigate a little bit, since we have not got the figures here. For example, do you indulge with your retail purchasers or wholesale purchasers, in co-operative advertising?

Mr. CHILD: Yes.

Mr. URIE: What did you spend in cooperative advertising in 1965 and the two previous years?

Mr. CHILD: I have no idea as to what the figures would be, but I can give you the cost as to what we are spending now. I would say we are spending now not more than $1,000 a week.

Mr. URIE: Probably $52,000 a year?

Mr. CHILD: Not any more. And that figure is probably high.

Mr. URIE: That is for 1966. Would that be comparable for the previous year?

Mr. CHILD: I would think so. I do not think the pattern changes very much.

Mr. JOYAL: As a supplementary, your statement indicates that you report on a basis of net sales?

Mr. CHILD: After transportation costs.

Mr. JOYAL: The basis of net sales. I presume there must be a gross figure from which you get the net figure?

Mr. CHILD: The reason net is used in this case is that transportation charges are deducted. Otherwise, gross and net are the same, sales to the public.

Mr. URIE: How do you promote your products, then?

Mr. CHILD: We use our own sales force for that.

Mr. URIE: How do they promote them? We have had indications that the retailers and certain other canners, that in order to promote new products, they have to work co-operative advertising, deal allowances, volume incentives, and that type of thing, and also work and aisle displays. That is, with large wholesale and retail chain stores.

Mr. CHILD: We do some but not extensively. You are talking about end aisle displays and aisle displays. We would like to do more.

Mr. URIE: Are those subject to negotiations with the individual chain?

Mr. CHILD: Yes, usually locally, in a particular area.

Mr. URIE: Have you any figures with you which would indicate how much you expended in the year 1965, if you have not 1966 figures, in that type of promotion?

Mr. CHILD: The figure I gave you of about $1,000 a week, which I think is probably high, would include every kind of promotion.

Mr. URIE: Every kind?

Mr. CHILD: Yes. We at the moment are doing no advertising as such at all.

Mr. URIE: No in-store demonstrations?

Mr. CHILD: That is still included in the $1,000.

Mr. URIE: All these things, samples, coupons, the whole works, they are all included in the $1,000?

Mr. CHILD: Absolutely. It has been forced on us.

Mr. URIE: I see. Would you have any idea if this is comparable to your competitors at all?

Mr. CHILD: No; I am sure that our advertising and promotion costs are much lower than theirs.

Mr. URIE: You used to have television shows. You do not have that sort of thing any more.

Mr. CHILD: No.

Mr. SMITH: At this stage, then, your product has to sell itself.

Mr. CHILD: That is a very good answer. And it does, too, plus the efforts of our sales force. We have about 200 salesmen all across Canada, and their work is pretty effective. We do not rely on any gimmicks or anything like that.

Mr. SMITH: Is it part of the salesman's job to see that the goods are properly displayed in the stores?

Mr. CHILD: Yes, it is.

Mr. URIE: Are they selling direct to the retail trade solely, or do you sell through wholesalers or brokers?

Mr. CHILD: We sell to wholesalers in Montreal, principally. Otherwise, we sell to retailers and to institutions.

Mr. URIE: Direct?

Mr. CHILD: Direct, yes.

Mr. URIE: Do you have volume discounts?

Mr. CHILD: No.

Mr. URIE: Volume incentives of any kind?

Mr. CHILD: Yes. We have a volume incentive which is called a performance plan. I am not very familiar with the details of it.

Mr. URIE: Do you have any contract or do you have any promotional literature with your retailers which would explain to us the volume incentive deals that you do have?

Mr. CHILD: Mr. Wiles says that we can forward to you a performance contract.

Mr. URIE: Would you, please?

Mr. CHILD: Yes. I gather that it is in the form that, if you reach a certain volume of purchases from us, then the price is reduced in cents per pound.

Mr. URIE: That is the normal pattern.

Mr. CHILD: Yes.

Mr. URIE: I wonder if we could see that also?

Mr. CHILD: Yes.

Mr. URIE: I will defer now, Mr. Chairman. I have other questions, but I am sure there are others who have questions as well.

Co-Chairman Senator CROLL: Thank you, Mr. Urie.

Senator THORVALDSON: May I ask Mr. Child a question, Mr. Chairman, in regard to paragraph three on the first page of his brief? You say that, as compared to 1964, the loss of earnings in 1965 was due in part to a drastic reduction in the supply of hogs and so on. Does that also apply to other companies? Were other companies affected in the same way that you were in regard to that item?

Mr. CHILD: I would think so.

Senator THORVALDSON: Yes?

Mr. CHILD: Yes.

Senator THORVALDSON: I find it very difficult to understand how it can have been very large, because the drop in volume of hogs seems to me to have been only about 8 per cent. Is that accurate?

Mr. CHILD: That is enough. You mean the figure that I show here? I did not work out the percentage.

Senator THORVALDSON: It is approximately 8 per cent, I think.

Mr. CHILD: There were 370,000 fewer hogs in the first three quarters of the year for western Canada. That is enough to put us into trouble.

Senator THORVALDSON: I understand that you opened up that fine plant you have in Winnipeg in 1965. That was opened in 1965, was it not?

Mr. CHILD: I believe so. It was before my time, but I believe so.

Senator THORVALDSON: Would not a great deal of the difference in profit before 1965 be accounted for by virtue of the changeover from the old plant to the new plant? In other words, you might charge most of it to that year's operation. Is that not what happens in many businesses with a change in a large way, as you had in 1965, from an old plant to a new plant? Costs of that kind are very heavy and, if yours were all taken out of that year, it seems to me that that might cover your whole loss in 1965, together with the other item you mentioned.

Mr. CHILD: You are thinking in terms of start-up costs.

Senator THORVALDSON: That is right.

Mr. CHILD: No. That does not weigh in our industry in the way you are thinking. That plant did operate at a loss in its first year of operation, not from any unusual start-up costs, because normal depreciation costs were charged, but simply because of the lack of through-put in relation to its size. I am not familiar with the previous plant, but I understand the new one is much larger than the old one.

Senator THORVALDSON: I am coming to that point, Mr. Child, because I think it is a rather important item in this whole presentation of yours. You seem to have been in financial trouble in 1965. However, I quite agree with you that perhaps most of that loss may have been in the start-up costs as well as in the moving costs. In other words, you were starting to do business in a new plant, and my experience is that a firm can never make a profit in the first year or two in a new plant. Would that be accurate?

Mr. CHILD: Well, in my experience we have been successful in my previous firms in making a profit in the first year with a new plant, but I agree with you that that very often is not the case. It certainly was not the case in this plant. It suffered a substantial loss in its first year. Mind you, I say here "in part".

Senator THORVALDSON: Yes, you do. That is why I asked the question in the first place.

Mr. CHILD: I deliberately put that in, because I cannot blame the whole situation of Burns in 1965 on the hog situation. We get so used to living with the hog situation that it stands out rather large in our minds.

Senator THORVALDSON: That is all, thank you.

Co-Chairman Senator CROLL: Senator Kickham.

Senator KICKHAM: Mr. Child, you pay the farmer for his hogs on a dressed weight basis. Who names the grade? Is that named jointly by you, the packing companies, and the federal Department of Agriculture?

Mr. CHILD: It is entirely the Department of Agriculture. It is the Government graders, not us.

Senator KICKHAM: So that the grade, on which the farmer may now receive a premium of $3 per hog, is set by the Department of Agriculture?

Mr. CHILD: Yes.

Senator KICKHAM: When the hog goes over 170 pounds dressed, then you people make a differential of one cent a pound.

Mr. CHILD: I had better ask Mr. Wiles that question; he is more familiar with this than I am. The answer is yes.

Senator KICKHAM: One cent per pound.

Mr. CHILD: Yes.

Senator KICKHAM: Now, I hear many farmers complain that, when the consumer goes to buy the product, the product is not identified as No. 1 or No. 2, but that the packing companies have a brand name under which they sell the product. They do not sell it as No. 1 or 2 or 3, as they pay the farmer for it, but under a brand name. I could name some brand names, if you like, although I am not sure that I know any brand names which your company carries. Is that not so, Mr. Child?

Mr. CHILD: Yes. I think what you are saying is that a hog may be grade A, B, C or D, but this does not necessarily follow as it gets into end products. The identification is not necessarily identical.

Senator KICKHAM: My point is that grade A, B and C, for example, could all be placed and sold to the consumer retail trade under one brand name. Is that right?

Mr. CHILD: I doubt it.

Senator KICKHAM: You doubt it.

Mr. CHILD: Yes.

Senator KICKHAM: Your firm does not do that?

Mr. CHILD: I am not an expert in that field.

Senator KICKHAM: Perhaps the gentleman next to you could answer that question, then.

Mr. W. Wiles, Toronto Plant Manager, Burns Foods Limited: Sir, hogs, unfortunately do not come out of moulds, and you can get a good belly from possibly, a "B" hog, or a good ham from a B hog, whereas the other cuts are over-fat, sufficient to downgrade the whole carcass. So we maintain no identities through our cuts of A, B, C hogs.

Senator KICKHAM: When you sell to the retail trade, there is no differentiation?

Mr. WILES: No.

Senator KICKHAM: That is what I wanted to find out. Thank you for that answer. Now, when you weigh the carcass, do you peel off the kidney and clean the lard off the hog before you put that on the returns to the farmer?

Mr. WILES: No. We pay for hogs head on, leaf lard and kidney in.

Senator KICKHAM: Another question. In the grade between 135 and 170, which is, we know, the premium grade on which the farmer will receive $3 from the federal Department of Agriculture, is there a differentiation there for, say, hog carcasses weighing from 135 to 155 compared to carcasses weighing from 155 to 170. Is there a larger percentage of lines of fat permitted, with the hog still being grade No. 1?

Mr. WILES: The grading depends upon the length of hog, sir, as well as upon the fatness.

Senator KICKHAM: What is the percentage of fat on the line permitted for grade A? And would you give us the same information for grade B and grade C, please.

Mr. CHILD: I do not think they are graded that way.

Mr. WILES: There is a combination which the department uses, but unfortunately I would be guessing, it would be from the top of my head, to give you those figures. We can get that information for you.

Senator KICKHAM: I have in my mind that the basis of the grade on which the farmer receives a return is determined by the packing companies of Canada together with the federal Department of Agriculture. And the packing companies probably have a larger voice in stating those grades than does the federal Department of Agriculture.

Mr. CHILD: No, they are graded entirely by the Department of Agriculture. It has nothing to do with the packers.

Senator KICKHAM: You miss my point. My point is that in naming the grades the packers probably have a larger voice than does the federal Department of Agriculture. I mean in giving the specifications of the grades.

Mr. SMITH: In setting up the specifications in the first place, the standards setup.

Senator KICKHAM: That is what I mean. I may not have been clear.

Mr. WILES: I believe the grades were established by the meat packing industry in conjunction with the Department of Agriculture together with various farm organizations across the country.

Senator KICKHAM: There are three groups, you mean.

Mr. WILES: Yes.

Senator KICKHAM: Of course, as a hog producer, I have the usual "beef" that we are getting now about 31 cents per pound for grade A across Canada, and I think possibly the average grading percentage is in the vicinity of 60 per cent across Canada. There will be a variation in some provinces, of course. But our "beef" is that we are not getting a sufficient percentage of the dollars which the consumers pay for the end product.

Your table here goes into some detail, but I am not quite satisfied, I am definitely not satisfied, that we are getting our fair share of the consumer dollar per pound of hog product.

Co-Chairman Senator CROLL: Have you anything further, senator?

Senator KICKHAM: No. I think that is all, Mr. Chairman.

Senator CARTER: Mr. Child, on the bottom of page 1 you say that there is a 25 per cent surplus capacity in the industry as a whole. How much surplus is there in your own packing industry, in your own firm?

Mr. CHILD: Under normal conditions.

Senator CARTER: At the present time.

Mr. CHILD: I have to turn that question around the other way. I know one of our plants that is slaughtering say 1,500 hogs. In that same plant we could slaughter from 3,000 to 4,000 hogs.

Senator CARTER: That is in one plant, though.

Mr. CHILD: That is in one plant. I think all of our plants are operating below capacity.

Senator CARTER: That would be only about 50 per cent capacity: 1,500 against 3,000.

Mr. CHILD: In that particular plant. It is not the same in all plants, of course.

Senator CARTER: What is your norm? You hardly ever get up to 100 per cent capacity. What is your usual, normal operating capacity? Is it 80 per cent?

Mr. CHILD: I think it is lower than that. It is perhaps 70 per cent.

Senator CARTER: That is in your own firm.

Mr. CHILD: In our own company, yes. It varies between cattle and hogs. We probably have a greater capacity in hogs relative to present through-put than for cattle.

Senator CARTER: On page 2 you say that wages and salaries take about 11 cents out of the sales dollar, and you go on to say on page 3 that the spread of meat packing costs has been fairly constant, fairly stable over the past 36 years, running between 20 and 25 per cent. I think on page 2 you give us 23 per cent. Now, out of that 23 per cent you give wages as accounting for 11 per cent. Have wages varied over the 36-year period very much?

Mr. CHILD: I give the wage pattern back to 1955 in Appendix C. I did not go back any further than that.

Senator CARTER: You do not give it in terms of percentage sales.

Mr. CHILD: Yes, I do, in total.

Senator CARTER: Where is that?

Mr. CHILD: Have you got Appendix C there?

Senator CARTER: Yes, I see: "average hourly earnings". Yes, I see, it is varied from 166 to 238, but that is not quite the point I am trying to get at. I am trying to get at the 11 per cent of your spread. If your spread has been the same, and you say it has been stable for about 36 years—

Mr. CHILD: I say it has been between 20 and 25 per cent.

Senator CARTER: Yes, averaging 23, say. That is the figure you give now.

Mr. CHILD: It is, yes.

Senator CARTER: Eleven per cent is accounted for by wages?

Mr. CHILD: Yes.

Senator CARTER: Your wages have varied from $1.66 per hour in 1955 to $2.38 per hour in 1964. What I want to know is, has the percentage changed?

Mr. CHILD: Yes, it has. I believe I mentioned it on page 3.

Senator CARTER: Yes, it has gone up from 10 per cent to 13 per cent.

Mr. CHILD: Yes.

Senator CARTER: Then something else has gone down for it to remain stable.

Mr. CHILD: Yes. I have the breakdown in my notes for 1950 and 1963, the two years that I mentioned. Would you like to put down the figures starting with 1950? The cost of raw materials in 1950 was 82.26 per cent of the sales dollar. Wages and salaries, which I have already given, 10.05 per cent; supplies, that is, supplies and packages, 2.82 per cent; depreciation .63 per cent; taxes .74 per cent; interest .19 per cent; profit .82 per cent.

Now I can give you the corresponding figures for 1963, which I took right out of the annual reports of the company. In 1963 cost of raw materials 78.04 per cent. It has gone down about 4 per cent. I have given you wages and salaries, 13.69 per cent; supplies and packages 4.40 per cent—they have gone up; general expenses have gone down slightly, 2.56 per cent; depreciation .80 per cent; taxes .28 per cent; interest .22 per cent; profits .01 per cent.

Senator CARTER: The main change has been in cost of materials?

Mr. CHILD: Wages and cost of materials and packages have been the principal changes.

Senator CARTER: One more question. Probably I do not quite understand the point you are making here on page 4 at the bottom, where you are going into the cost per pound, where you say:

> Only one further assumption is necessary. Of the edible meat, a large portion is in less desirable cuts,. . .

Before that you assume that 35 per cent of the carcass is bone. I realize that you say this is a hypothetical case; but when the consumer buys a piece of meat she buys bone also, does she not?

Mr. CHILD: Depending on the cut, yes, of course.

Senator CARTER: You started off by saying that the price is double because you take out the insides, and so forth, and that doubles the price. Then you assume further that 35 per cent of the carcass is bone.

Mr. CHILD: Yes. What I am assuming is if we took the bone and fat out, and I am not saying that we do, because we normally sell a whole carcass, anyway.

Senator CARTER: What was puzzling me was whether this was extra bone that did not get out to the consumer at all, in addition to the bone that the consumer paid for.

Mr. CHILD: No; the point is that if you buy a whole carcass you are paying so much, say 40 cents a pound, but if you want a piece out of it that contains no bone or fat, then you will pay more than the carcass price. That is all I am trying to say.

Senator CARTER: Oh, I thought you used that in your calculations.

Mr. CHILD: I am only trying to illustrate that bone has to be cut out, but a lot of people don't appreciate that.

Senator CARTER: No, I suppose that is because most people buy meat without bone.

Mr. CHILD: They do today, they buy it without bone. Mind you, they don't buy it from us. We normally just sell them the carcass.

Senator CARTER: You don't see meat wrapped up in cellophane with bone in it, do you?

Mr. WILES: It is becoming more and more prevalent all the time. I think less bone is sold with meat than 20 years ago.

Mr. CHILD: I think the biggest sale of beef in the United States is of the hamburg type, ground beef, which of course has no bone.

Co-Chairman Senator CROLL: Mr. Basford?

Co-Chairman Mr. BASFORD: I have considerable difficulty, Mr. Child, in seeing the relationship between the price you pay and what goes on at the supermarket. The Department of Agriculture gave us figures, for example, for choice steers in Toronto, which in January this year were $27.74, and in September were $27.24, almost an identical price. I have another copy of the table, which I am handing you now. The price on choice steers in Omaha for the same period is, for January 1966, $25.91, and for September, $25.75, a slight reduction. Yet the average retail price for Canada on material supplied to us by the Dominion Bureau of Statistics over the same period, January 1966 to September 1966, shows, for example, sirloin steak up 7 cents, round steak is up, prime roast is up, as also are blade roast and stewing beef and hamburg. Indeed, all the items are up. Therefore, I take it that you, over that period, as a packing house operator, were paying somewhat the same, and yet off the shelf in the retail stores all those items have gone up. I find that very difficult to see, why that is happening, Could you enlighten us?

Mr. CHILD: Would you look at Appendix D which I brought today.

Co-Chairman Mr. BASFORD: Yes, I looked at it and I notice that your chain store list over the same period exactly, for Calgary, has gone down, and that for Edmonton is has gone down, while Prince Albert is slightly up. My question is not directly aimed at you, nor am I suggesting that you are at fault. If you are not at fault, where is the fault?

Mr. CHILD: All I can say, Mr. Basford, is that these are the prices that were on our quotations to chain stores over this period of time. What happens after that, of course, we have no control over.

Co-Chairman Mr. BASFORD: On the last page of your brief, as an economist you made certain comments, which you did not make as president of Burns Foods Limited, and I ask you for a comment on the same grounds.

Mr. CHILD: I do not know whether that is fair treatment or not. I am afraid I don't know what happens after we part company with the carcass. As I say, we mainly sell in carcass form. We don't normally cut up, certainly don't cut up into steaks and into separate cuts.

Mr. SMITH: May I ask a supplementary? How much would you charge a chain store for a six-ounce package of cooked sliced ham? What would your sales price to a large chain store be?

Mr. CHILD: I was hoping Mr. Wiles would know; he is the operating end of this team.

Mr. SMITH: I have an example given me by one of the spectators who was doing some comparison shopping in Toronto on Saturday and he found ham in a large chain store, six-ounces, being sold for 84 cents, and in the same store a half pound of equally food quality ham sliced in that store cost him only 54 cents. I am interested to know what you get for your six-ounce packages of good quality sliced ham. It was not Burns, by the way.

Mr. WILES: If we were given time, I could have given it to you, but unfortunately that information is not with us now.

Mr. SMITH: Perhaps you could supply it to us.

Mr. WILES: Oh, yes. Of course, unless I actually see the ham I don't know if we would be talking about the same quality or not. The slightest piece of fat taken off has a tremendous bearing on it.

Mr. CHILD: However, it would be interesting to know what we charge. Of course, I follow your question.

Mr. SMITH: If it is 84 cents at retail, I would be interested to know what it would cost wholesale, even for your best quality.

Co-Chairman Mr. BASFORD: As a member of the committee I have difficulty reconciling the figures I have brought forward, Mr. Child, with what has been going on with regard to prices in Toronto and Omaha between January and September. The prices were almost the same.

Mr. CHILD: I think that is probably true of Calgary too. We are more familiar with that, of course.

Co-Chairman Mr. BASFORD: Yes, we were not supplied with the Calgary market figures.

Mr. CHILD: I have some figures.

Co-Chairman Mr. BASFORD: Prices in the stores have gone up. Now you say you are not at fault. But surely you have been subject to the same prices and costs that you itemized in your brief that others have been subject to?

Mr. CHILD: I don't follow you.

Co-Chairman Mr. BASFORD: Prices in the stores have gone up. The stores and the wholesalers and the brokers have been subject to the same cost increases that you have. Labour has gone up for them also. Yet you say you have not been affected in the market when they have. Why have not others been able to resist the cost?

Mr. CHILD: Our prices, as you see in the list, have varied over this period. We started off in January quoting 45 cents per pound for Red steers, and that became as low as 42 cents in June and July, and went back up again to 46 cents at the end of September, and the last week I quoted, on October 28, went down to $44.25.

Co-Chairman Mr. BASFORD: You see, the same thing has happened in hog prices which have gone down very greatly both in Toronto and Chicago

over the same period from January this year to $33.92, a drop of almost $10, and at Chicago in January from $38.89 down to $32.33 in September, a drop of $6; yet the D.B.S. figures at retail price would indicate that they have gone up.

Mr. CHILD: Our wholesale prices have varied considerably on various cuts. What dates are you quoting on pork?

Co-Chairman Mr. BASFORD: January and September, from the same table I gave you.

Mr. CHILD: September 1966—I have my own figures here. The first week in January 1966 Toronto hogs were around $42 dressed.

Co-Chairman Mr. BASFORD: In Toronto?

Mr. CHILD: Yes.

Co-Chairman Mr. BASFORD: $42.73 in January.

Mr. CHILD: Yes. I have the figures here for every day. You probably have the average. The daily figures are more accurate. Take September 1, when Toronto hogs were $34.55, or about 6½ cents lower. I am looking at the first week of the month in each case.

Co-Chairman Mr. BASFORD: I had a carcass price and you had a pound price.

Mr. CHILD: No, I think you have pound prices.

Co-Chairman Mr. BASFORD: We have slightly different figures but they show the same trend.

Mr. CHILD: The price has gone down.

Co-Chairman Mr. BASFORD: On the Toronto market?

Mr. CHILD: Yes.

Co-Chairman Mr. BASFORD: Yet in retail stores the price has gone up?

Mr. CHILD: I can only give you the price of cuts as we sold them, at our level. On January 1st, fresh bellies were selling, by our industry, at 53 cents; backs at 72 cents; hams at 59 cents; butts at 51½ cents; picnics at 41½ cents.

On September 1st, hams were selling at 44½ cents; bellies at 53 cents; backs at 79 cents; butts at 55 cents; and picnics at 35 cents.

Co-Chairman Mr. BASFORD: Could I have from you a statement—I do not think you could supply it right now—covering both your prices that you have actually paid for hogs and cattle at Calgary and—do you buy also at Toronto?

Mr. CHILD: We buy at Kitchener.

Co-Chairman Mr. BASFORD: Out of Calgary and Toronto, for, say, the first complete week of February 1965 and the first week of February 1966; and the last complete week of October 1966; and then your list price for the same period?

Mr. CHILD: I have some of that information here.

Mr. WILES: You want the list price of primal pork cuts?

Mr. CHILD: I have that in my notes, if you would like to have it now.

Co-Chairman Senator CROLL: It is rather a concise question and involves a lot of information, so could you get it back to us as soon as possible?

Mr. WILES: For the first week of February 1965 and the first week of February 1966 and for the last complete week of October 1966—costs and selling prices for beef—I would not have the 1965 figures for the beef, because Appendix G deals only with 1966.

Co-Chairman Mr. BASFORD: These would be the prices that you paid for them?

Mr. WILES: Our paying prices.

Mr. CHILD: Paying prices for cattle and hogs and selling prices for carcass beef.

Co-Chairman Mr. BASFORD: The actual prices you pay, not just those quoted in the market.

Mr. CHILD: Yes.

Co-Chairman Mr. BASFORD: How long would the pork cut stay in the store, according to your experience or observation?

Mr. CHILD: Fresh pork cuts?

Co-Chairman Mr. BASFORD: Yes.

Mr. CHILD: Two or three days, at the most.

Co-Chairman Mr. BASFORD: And what about cured or smoked meats? What is the turn-over on that?

Mr. CHILD: All of our meat products—fresh, cured, smoked or cooked—we would hope they would turn over within a week.

Co-Chairman Mr. BASFORD: In your plant or in the retail store?

Mr. CHILD: In the retail store.

Mr. WILES: You will get extended shelf life with vacuuming packaging, but we would hope a week's turnover.

Co-Chairman Mr. BASFORD: How do you try to encourage this one week turnover? Would I be correct in saying that this is one of the jobs of your salesmen?

Mr. CHILD: Yes.

Co-Chairman Mr. BASFORD: Could I ask something looking to the future rather than the past, Mr. Chairman? In the *Financial Post* of last week, and also in the weekend press, it was mentioned that the Winnipeg Grain Exchange was considering opening a futures market in beef.

Mr. CHILD: Yes.

Co-Chairman Mr. BASFORD: It was alleged that this would help to stabilize the market in meat prices or beef prices. Could I have your comment on that?

Mr. CHILD: There is a futures market in live cattle, I guess, in Chicago. I do not know whether there is in beef or not in Chicago but there is in live cattle.

Co-Chairman Mr. BASFORD: There is one in beef also at the Chicago Mercantile Exchange, so the *Financial Post* says.

Mr. CHILD: This has been operating for about a year but I have not studied the figures, so I am not sure of its effect on the stabilization of prices, if any. It certainly does provide a hedge to the industry, both the meat packing industry and the cattle feeding industry, against loss. What its effect on prices is I have no idea.

Co-Chairman Mr. BASFORD: What would providing the hedge do for the consumer?

Mr. CHILD: I have no idea.

Co-Chairman Mr. BASFORD: My last question is related to your general comments, as an economist, much of what you said is correct that many people would appear to be living better than they have. You do not take into account there the situation of those living on limited and fixed incomes?

Mr. CHILD: That is in the last sentence.

Co-Chairman Mr. BASFORD: I take it, then, you say "No segment of our population will fail to benefit from it"?

Mr. CHILD: I am implying in there—I was thinking in there of people with fixed incomes. With the present inflationary situation it is obviously very hard on them. There is no question about that.

Co-Chairman Mr. BASFORD: How best do we protect them?

Mr. CHILD: I think your Government has already been doing something by way of raising old age pensions.

Co-Chairman Mr. BASFORD: We could possibly increase them again, to protect them against the increases over the last year?

Mr. CHILD: I would rather not answer that, I might get into trouble.

Co-Chairman Mr. BASFORD: Very well, I will not ask you to do so.

Co-Chairman Senator CROLL: Turning to Appendix D, dealing with sliced bacon, in July, you indicate the cost of No. 1 sliced bacon at an average of about 89 cents for the month. That is the weekly selling price, to whom?

Mr. CHILD: This particular column here is our quotation to the large buyers, which is generally to chain stores.

Co-Chairman Senator CROLL: So you sold at 90 cents?

Mr. CHILD: No, we quoted. We did not necessarily sell at that.

Co-Chairman Senator CROLL: But you did not get any more than 90 cents?

Mr. CHILD: I would doubt it.

Co-Chairman Senator CROLL: Could I indicate to you that the D.B.S. figures, which I have now for July, show that same bacon for $1.31?

Mr. CHILD: That is retail.

Co-Chairman Senator CROLL: The retail average, yes. Take the next week—August—you have there that in that week you sold for an average of about 94 cents?

Mr. CHILD: We quoted a high of 96.

Co-Chairman Senator CROLL: Let us say you quoted 92 and on the average, if you got your price, you got about 94 cents?

Mr. CHILD: Yes.

Co-Chairman Senator CROLL: The sale to the public was $1.38?

Mr. CHILD: Right.

Co-Chairman Senator CROLL: In the following week, things were getting a little tough, I think, and you got down to about 92 cents?

Mr. CHILD: Yes.

Co-Chairman Senator CROLL: The chain store was selling at $1.42.

Mr. CHILD: It might have. What did you say? $1.42?

Co-Chairman Senator CROLL: $1.42, in September?

Mr. CHILD: In what area?

Co-Chairman Senator CROLL: The average—which is even worse.

Mr. CHILD: Is that in all Canada?

Co-Chairman Senator CROLL: All Canada. These are D.B.S. figures. Is that a pattern in the business? Can you reconcile it? I just happened to pick those three months. I have a couple of years here, but you cannot compare them.

Mr. CHILD: Would you say these were average prices or peak prices?

Co-Chairman Senator CROLL: The national averages.

Mr. CHILD: Oh, I would think that they have been sold at much less money retailwise than that.

Co-Chairman Senator CROLL: These are national averages. Perhaps they go even much higher than that.

Mr. SMITH: Is the mark-up higher? What is the inference from that?

Co-Chairman Senator CROLL: It is more than that, Mr. Smith, it is an awfully high mark-up item. Have you got the figures for any time, say January, as to what you were getting? Can you tell me what you were getting in January of 1966 a monthly basis?

Mr. CHILD: We have May and June.

Co-Chairman Senator CROLL: Tell me what May and June were?

Mr. CHILD: The first week in May—

Co-Chairman Senator CROLL: Give me the average of that month.

Mr. CHILD: In May we quoted all the way from 79 to 87.

Co-Chairman Senator CROLL: What is the average?

Mr. CHILD: Say a median figure might be 83.

Co-Chairman Senator CROLL: 83, as against $1.25.2, that is what the public was paying.

Mr. CHILD: In June, 91.

Co-Chairman Senator CROLL: 91. The public were paying $1.28.2.

Mr. CHILD: These are Calgary figures.

Co-Chairman Senator CROLL: Calgary is better than the average. Can you explain this? I could have taken you over another item, ham, but can you explain this inordinately high profit for this particular item, which seems to be one of high demand?

Mr. CHILD: I can only view it the same as you do, Mr. Chairman, on the arithmetic, because I am not familiar with retail operations. It is possible, of course, that chain stores take a high mark-up on one item and a low one on another, and offset the two.

Mr. SMITH: But bacon surely should be an item where there is a minimum spoilage in the store?

Mr. CHILD: I would hope so.

Mr. SMITH: As opposed to fresh meat?

Mr. CHILD: I do not think there is much spoilage in any meat products today. I would doubt if that is a serious factor.

Mr. SMITH: I would think there would be very little spoilage in bacon or any of the other vacuum packed meats.

Co-Chairman Senator CROLL: There is a bit to cry and shout across the country so that everybody has heard about the cost of food, and you have heard it too?

Mr. CHILD: Yes, of course.

Co-Chairman Senator CROLL: Then, are you not concerned or particularly interested in what these merchants are doing to your product, to this very high price that they are getting for the product? Does not that hurt? Does not that concern you? Does it not damage you, if they are getting it inordinately, as I suggest they are?

Mr. CHILD: Strangely enough, our bacon sales are up over the previous year, so even at those prices which you are quoting, the public is buying more bacon.

Mr. SMITH: Do your salesmen report to you from time to time on the mark-up they see your products selling at?

Mr. CHILD: Not that I know of.

Mr. SMITH: Do they report to you whether stores, for example, are selling Burns bacon cheaper than Swifts or as Premium products or are getting more on it?

Mr. CHILD: Not usually, but what we usually look for is whether our products are featured in the weekly advertisements, but then they are usually feature prices. I think that bacon in Calgary this week is at 89 cents as a feature item.

Mr. SMITH: They do not come back and say to you "I think our bacon could stand another 10 cents a pound; the other is selling at 95"?

Mr. CHILD: I wish they would.

Co-Chairman Mr. BASFORD: What customer resistance do your salesmen report over the last year?

Mr. CHILD: They do not come in contact with the consumer.

Mr. JOYAL: They are consumers themselves.

Mr. CHILD: Yes, indeed.

Co-Chairman Mr. BASFORD: The store managers must report to them and talk to them.

Mr. CHILD: If we have an increase in bacon sales, the consumer resistance is declining, not increasing. That is, if there is any consumer resistance.

Co-Chairman Senator CROLL: Mrs. MacInnis.

Mrs. MACINNIS: I would like to start in at this point, where bacon sales are up, and I would like to take you back to the bottom of page 3 of your brief, Mr. Child, where you are complaining that the bacon package change which was forced on your industry was costly and was a waste of money. I would like you to explain in what way it would be a waste of money to have the package such that the customer is able to see what she is getting.

Mr. CHILD: I do not think that does her any good.

Mrs. MACINNIS: Why not?

Mr. CHILD: She could still get a good pound of bacon before.

Mrs. MACINNIS: Is it not logical that you see what you are buying.

Mr. CHILD: All you can see today, Mrs MacInnis, in the new package is one slice. Is that not right?

Mrs. MACINNIS: Yes. I am not saying, and I do not believe, that we have necessarily got complete disclosure yet, but what is the basic objection to the customer seeing, shall we say, some part of the bacon that she did not see before? What is your objection to that?

Mr. CHILD: I have no objection to that whatsoever. I just say it is not necessary.

Mrs. MACINNIS: Why?

Mr. CHILD: If you buy a package of first grade bacon, it is not necessary. One of the problems though in our industry is that we packers do not distinguish between first, second, third grades as such.

Mrs. MACINNIS: Yes. If I may say so, I have done a great deal of buying of bacon, and you will find that in one bin there are identically packaged pieces of bacon. Presumably they are of the same grade, because they are put on at the same price. Yet any housewife who buys these things knows that some will be very, very fat and others will not be nearly as fat; yet, mind you, they must be the same grade or at least I think they would be the same grade, because they are the same price and in the same bin. What is the objection of letting her see whether she is getting a fatter one or a leaner one?

Mr. CHILD: I have no objection whatever. But, if it is under the same brand today, and I can only speak for our own bacon, if it is under our No. 1 brand, then the housewife can be pretty sure of getting a fairly uniform type of bacon, no matter which package she picks up. However, let me say this: if she is

looking in a bin where the specials usually are kept, and she picks up a package of No. 2 bacon or No. 3 bacon, then she will, of course, get a great variance in the package, but that is all she pays for.

Mrs. MacInnis: In other words, No. 1 is more uniform.

Mr. Child: Definitely.

Mrs. MacInnis: And No. 2 and 3—

Mr. Child: Are not.

Mrs. MacInnis: Oh.

Mr. Urie: How do you know which is which? Unfortunately, the average consumer does not have a clue.

Mrs. MacInnis: That is the point.

Mr. Child: That is a complaint that I have myself about our own industry. We do not distinguish, except by the brand name, and I am quite sure the consumer in many cases does not know what the brand name signifies.

Mrs. MacInnis: May I go on? I have one or two questions on this point. At the top of page 4 you say:

> A fairly recent phenomenon is the obvious preference of consumers for bacon over ham. During most of this year smoked ham has been a bargain for the housewife in relation to other smoked meats. This is very much against the traditional pattern. Flavour may be part of the answer. Packers have done much recently to improve the flavour of bacon, and our own firm has up-graded its selection. (That is, we have lowered the percentage of slices going into first grade, thus giving somewhat more uniform slices). On the other hand, nearly all packers in North America are producing hams with a more bland flavour than was the case some years ago. It is claimed that this is what the housewife wants.

In the whole of that paragraph what stands out to me is the fact that evidently, the packers are in the dark about what the housewife really does want, because there is a great aura of mystery there: perhaps she wants this, perhaps she wants that, and the pattern is changing and it is claimed that she now wants something else again.

Apart from telling the housewife what she wants in the form of advertising in order to get her to want this, that and the other thing, is there any attempt in your industry to find out what she really does want?

Mr. Child: Not by my firm.

Mrs. MacInnis: Is there any attempt in any of the firms that you know of?

Mr. Child: I do not really know.

Mrs. MacInnis: Well, why not?

Mr. Child: It costs money to find this information out.

Mrs. MacInnis: It costs money to put things on, whether she wants them or not.

Mr. Child: How would you suggest that we go about finding this out?

Mrs. MacInnis: Well, you could use Gallup polls. There are techniques. What I am interested in is whether or not the manufacturers and processors have ever made a serious attempt to find out what the consumer does want in the kind of meat product that is being put on the market.

Mr. Child: Mind you, the packers are, of course, constantly testing their own products. There are people in their own plants who are consumers and who constitute taste panels as such.

Mrs. MacInnis: I am talking about the end user, the woman in the kitchen.

Mr. CHILD: Right.

Mrs. MACINNIS: Is there any attempt to find out her preferences in these products?

Co-Chairman Mr. BASFORD: One witness earlier, Mrs. MacInnis, told us that they wanted romance.

Mrs. MACINNIS: Well, I can think of things more romantic than hogs for a housewife, but I really am serious about this, because listening to the story all the way through, it would seem that the housewife is rather inane and childish and just likes frills and toys and one thing and another. I am just wondering whether the industry, and you are the person we have here today, whether your industry or whether your firm has made any attempt to find out whether, first of all, whether it is bacon she wants rather than ham or whether she prefers the various things you have mentioned in your brief as preferences. Has there been an attempt to find out about these things, whether the consumer wants a ham with a blander flavour?

Mr. CHILD: The normal marketing process does this.

Mrs. MACINNIS: How?

Mr. CHILD: In that the housewife, over the years, has a choice in any supermarket of many types of meat, and she develops a pattern over those years of whether she wants something that is salty or less salty. If she does not like salt, she ignores the meats that are more salted and picks up the other kind.

Mrs. MACINNIS: I see in your brief that during the summer months of the year smoked ham was a bargain for the housewife in relation to other meats, and this is very much against the traditional pattern.

Mr. CHILD: Right.

Mrs. MACINNIS: So, evidently it is not always infallible.

Mr. CHILD: I do not think you can infer that from my statement.

Mrs. MACINNIS: I was just reading it to you.

Mr. CHILD: I think you have taken the wrong inference. I have merely expanded on the statement that in the last year housewives have been picking up more bacon than ham. There may be a number of reasons for it. I give one reason. Perhaps this is a bit of a personal phobia. I do not like bland ham. I would like it with a bit more flavour. I could be wrong, but I say that one reason for the wider preference for bacon might be in the flavour. Do you want us to get down to scientific terms?

Mrs. MACINNIS: I am just bringing you back to this question to which I have not had very much of an answer so far, namely, why is there not much concerted attempt to find out in a purposeful way, ahead of producing these things, what it is that women do want.

Mr. CHILD: Perhaps you can come back to my earlier question also, namely, what would you suggest that we do?

Mr. ALLMAND: I have a supplementary, Mr. Chairman.

Co-Chairman Senator CROLL: Yes.

Mr. ALLMAND: Surely, Mr. Child, in a competitive industry you are going to have some consumer research. Other witnesses before this committee have told us that they do try to find out what the consumers want, because, if they do not do so, their competitors will, and will beat them to the market and take part of the market away from them. If you are not attempting to find out what the consumer wants, it appears to me that the reason is that there is not much competition in your industry. I was not here earlier because I had to be in another committee, and perhaps this question has been asked, but how much competition do you have in your particular market? How much of the market

do you have in, let's say, the western provinces? What percentage of the market does Burns have in the western provinces?

Mr. CHILD: I do not know. I have not been with Burns long enough to find out.

Mr. ALLMAND: A company usually knows what its competition is and how much of the market it has. As I see it, most producers in a competitive market have to do consumer research, if they are going to make any sort of impact on their market, and yet you say you are not doing anything. You must have the market pretty much to yourselves, then, and you can give the consumer what you want to give and they can take it or leave it and that is that. That is the way it seems to me at any rate. I would be interested in knowing otherwise.

Other witnesses have come before us and have told us what percentage of the market they have. The supermarkets told us; the canners told us—

Senator THORVALDSON: Is this a question, Mr. Chairman, or is it a speech?

Mr. ALLMAND: I am trying to explain the importance of getting this information.

Co-Chairman Senator CROLL: Would you put your question precisely, Mr. Allmand?

Mr. ALLMAND: I would like to know how much of the market Burns has in the western provinces and in Canada as a whole. I am interested in those two areas. Could we have that information?

Co-Chairman Senator CROLL: The western provinces specifically and Canada as a whole. Can you get us that information?

Mr. CHILD: I do not know. We can try.

Co-Chairman Senator CROLL: Others have been in similar situations and have been able to get the information without much difficulty.

Mr. ALLMAND: Another supplementary to that, Mr. Chairman. I am interested in the number of competitors that they have in these markets. Are there as many as five, for example? And what is the percentage of the market that they would have, so that we can see the relative position of these various competitors.

Co-Chairman Senator CROLL: That is one thing that Burns would not know, Mr. Allmand. They would love to know how much of the market their competitors have.

Mr. ALLMAND: Other witnesses have told us.

Co-Chairman Senator CROLL: Well, the competitor will tell us that for himself. He can only tell us how much he has.

Mr. ALLMAND: Well, he can tell us how many competitors he has.

Co-Chairman Senator CROLL: Yes, he can do that. How many competitors do you have? Do you have four or five?

Mr. CHILD: No, no, we have a lot more than that.

Co-Chairman Senator CROLL: At any rate, the complaint being made by Mrs. MacInnis, as I see it, and she seems to have stated it very well, is that you do not ask the woman, you tell her. That is the chief complaint and Mr. Allmand makes the same point. What is your research doing about it?

Mr. ALLMAND: Consumer research.

Co-Chairman Senator CROLL: Yes. Now, Senator Thorvaldson, you wanted to ask a question.

Senator THORVALDSON: I wanted to ask Mr. Child this question: is the meat packing business in Canada fully competitive?

Mr. CHILD: Of course, yes.

Senator THORVALDSON: I have done a little bit of arithmetic in regard to your statement here, respecting your net profits and the percentage of your sales dollar that is involved. I might say first that I have observed that some of the other packing companies, from year to year, have made a statement that their portion of the sales dollar is so and so. Now, I notice that, from your statement for 1965, your sales for 1965 statement shows that your 1964 sales were at $165 million, and in that year your operating profit was just under $1 million.

Would my arithmetic be correct, if I said to you that your profit which you take out of the sales dollar is half of 1 per cent. Is that correct?

Mr. CHILD: For that year, yes.

Senator THORVALDSON: For that year?

Mr. CHILD: Yes.

Senator THORVALDSON: Then, coming to 1965, I observe that your net sales are approximately $200 million and your operating profits are $254,000. Would it be correct to say, then, that in that year your company took, as a profit, 1/8 of 1 per cent?

Mr. CHILD: Yes, that sounds right. Yes.

Senator THORVALDSON: Yes. So those are the final margins that your company has had in these two years?

Mr. CHILD: That is right.

Senator THORVALDSON: Namely, approximately slightly more than half a cent out of every dollar in 1964 and one-eighth of a cent in 1965.

Mr. CHILD: Right.

Co-Chairman Senator CROLL: Mr. Allmand, do you have any more questions?

Mr. ALLMAND: No.

Mr. CHILD: Mr. Chairman, may I come back to Mrs. MacInnis' remarks? I do not think it would be a fair conclusion to say that we tell the housewife what she must take from us. We do, you know, get a great deal of information back from the retailers, who are our customers. In effect, they tell us what they think the housewife wants, and they, or at least some of them anyway, do a considerable amount of consumer research.

Mrs. MACINNIS: Well, all I can say is that I think it is a game of guessing. It is a guessing game all round, when with producer-consumer research both retailers and packers could find out what the consumer really wants. I mean to say women are a great deal more knowledgeable now than they used to be, and if genuine education were given to them, not advertising, they would benefit from it. The trouble is they are being told that they want this, that and the other thing in the first place, whereas, if they were given the fact of things without all this high pressure stuff, I think that they would respond much better now.

Mr. CHILD: I would like to see some educational advertising on the part of our industry. I would like to explain what brands mean, for example, what our brands are, how they are arrived at, what the various cuts of meat mean in terms of nutrition and so on. I would be delighted to see that.

Co-Chairman Senator CROLL: Just keep talking. This is having a great educational effect on the country, this whole business. We will hear from Senator Inman.

Senator INMAN: I have just one question, Mr. Chairman. Mr. Child, can you tell us what percentage of hog carcass is absolute waste, because we know that

the wastage must add to the cost of the finished product. The reason I am asking is that I had a tour through one of the large packing plants one time and I was just amazed at how little waste there was. There was practically no waste.

Mr. CHILD: I may have that information here, senator, if you will just excuse me for a moment. I have some figures that were submitted to the 1958 commission on the same subject. According to those figures, from the whole hog to the end products there is a shrinkage of 3 per cent, that is all. Everything else is utilized in some way.

Senator INMAN: Is the entire hog utilized in the plant—are all parts used?

Mr. CHILD: They are used.

Co-Chairman Senator CROLL: Senator Inman, while you were downstairs in the house I placed on record what we call the "Anatomy of a Pig", which was prepared by the Department of Agriculture, in which appears in great detail the information you were anxious to get, and it is more recent and more up to date than that of my friends' here, which is 1958.

Co-Chairman Mr. BASFORD: I have a couple of local questions, Mr. Child, Your company used to operate a slaughterhouse in Vancouver; is that correct?

Mr. CHILD: A meat packing plant.

Co-Chairman Mr. BASFORD: Excuse me, a meat packing plant is the correct expression—which was closed out when?

Mr. CHILD: Mr. Wiles says it was in 1963.

Co-Chairman Mr. BASFORD: I think it was 1963, too, but I am not positive. I take it then that what was dealt within that plant is now dealt with in Calgary; is that correct?

Mr. WILES: Edmonton.

Co-Chairman Mr. BASFORD: What effect did that have on your list prices in Vancouver or on the coast?

Mr. CHILD: I would not think it would have any effect.

Co-Chairman Mr. BASFORD: What happened to the transportation end of it?

Mr. CHILD: We quote in any market on what that particular market situation is. Transportation is part of that cost whether to the suburb of Calgary or Vancouver. I don't know what the feasibility study was in closing the plant, but it was probably hoped to offset one set of costs with another.

Co-Chairman Mr. BASFORD: But the transportation bill must have had an impact either on the consumers or on your profit, one or the other, I would think.

Mr. CHILD: It might have been on our profit.

Co-Chairman Mr. BASFORD: It had no effect on your price list on the west coast at all?

Mr. CHILD: I would not think so; it would on our costs, but not on our quotations.

Co-Chairman Mr. BASFORD: Could I have your price list for the three years on beef?

Mr. WILES: Say for four years. Perhaps five years would be better would it not?

Co-Chairman Mr. BASFORD: You talked me into it.

Mr. WILES: I will see if we can dig them out. I am not sure of this one.

Co-Chairman Mr. BASFORD: Well, it seems to me strange that a packing plant can be closed up on a very large market and have no effect on prices.

Mr. WILES: What do you mean? It would have no effect on prices, you say? At all times since that time we have been quoting in the Vancouver market.

Co-Chairman Mr. BASFORD: Yes, and your President has said, I take it, that it had no effect on the price.

Mr. WILES: We would have to quote competitively in the market.

Senator THORVALDSON: Do you ship from Vancouver to Calgary?

Mr. WILES: To some extent.

Co-Chairman Mr. BASFORD: So your quotation could be a question of profit?

Mr. WILES: It could be anything.

Co-Chairman Mr. BASFORD: With no relation to costs whatever?

Mr. CHILD: Our costs could be changed, but quotations follow a market and not costs.

Co-Chairman Mr. BASFORD: And I take it this is covered on page 2?

Mr. CHILD: No, on page 7.

Co-Chairman Mr. BASFORD: Thank you.

Co-Chairman Senator CROLL: Mr. Urie?

Mr. URIE: I have one or two questions, Mr. Chairman. Mr. Child, since I was questioning you a few minutes ago the Corporations and Labour Unions Return Act filed by your company indicates that slightly in excess of 43 per cent of the outstanding shares of your company are held by Raytor and Company of Toronto. I believe that was the name of the company I gave you earlier. Would you ascertain for us, if you can, the principals of Raytor and Company.

Mr. CHILD: You mean the beneficial owner?

Mr. URIE: The beneficial owner.

Mr. CHILD: You say forty-three per cent is held in the name of Raytor?

Mr. URIE: Yes. We would like to know the beneficial owner, and if it is a share company, but if not, who the owners are.

Co-Chairman Senator CROLL: And the other question in connection with shareholders—of what, five per cent?

Mr. URIE: More than five per cent.

Mr. CHILD: Yes, I have that question down.

Co-Chairman Senator CROLL: Mr. Joyal?

Mr. JOYAL: One question for information, Mr. Chairman. I am trying to reconcile the statement you made on page 2, Mr. Child, where you suggest that from each dollar sales about 77 cents goes back to the farmer, yet on Appendix D you show the cost of No. 1 sliced bacon, for example, at 53 cents, which is the cost that goes to the producer, the farmer.

Mr. CHILD: Not exactly.

Mr. JOYAL: At the bottom of page 2 you say that 77 cents on the dollar goes to the farmer. This is the cost of your raw product.

Mr. CHILD: Right.

Mr. JOYAL: And in your Appendix D giving the costs and selling prices at Calgary, we find that the amount that goes to the producer, as I understand your breakdown, amounts do only 59 per cent. Now, what is the spread between 77 and 59 per cent, where does that spread go?

Mr. CHILD: Where do you derive your 59 per cent?

Mr. JOYAL: The spread between 53 cents which is the cost of fresh bellies, No. 1 grade, and the cost of No. 1 sliced bacon at 89.63.

Mr. CHILD: But we do not buy fresh bellies from the farmer. We buy pigs.

Mr. JOYAL: Therefore, your percentage would be less.

Mr. CHILD: It has no relationship.

Mr. JOYAL: Could you explain? You say that 77 per cent of your dollar goes to the farmer?

Mr. CHILD: Yes.

Mr. JOYAL: Yet in Appendix D the cost of No. 1 sliced bacon is 53 cents. I am sure there is an explanation.

Mr. CHILD: I think you have to follow the explanation through on pages 5 and 6, and possibly back to page 4.

Mr. JOYAL: That is when you give us the hypothetical case.

Mr. CHILD: Yes. We could give you actualities, if you wish, but I thought it would be simpler to give you a hypothetical case.

Mr. JOYAL: Could we be provided, therefore, with a hypothetical case which would indicate the price to the farmer?

Mr. CHILD: You mean an actual case, do you not?

Mr. JOYAL: Yes, an actual case. Would it come to roughly 77 per cent of the cost?

Mr. CHILD: But you don't get it that way. You take your total sales for the year, which say are $200 million, and you subtract all of the money you pay out other than the farmer, and what the farmer gets is what is left. It is an over all calculation, not an individual calculation. It is based every year on over all sales and it is a mix of everything we buy.

Mr. JOYAL: But does it include cost that goes to the producer other than the farmer?

Mr. CHILD: In our case practically everything we buy comes from the farmer, but if we had a mix, perhaps it would go to anybody from whom we bought raw material.

Mr. JOYAL: Thank you.

Co-Chairman Senator CROLL: Any other questions?

Co-Chairman Mr. BASFORD: I would like to go back to page 7, Mr. Child, in which you state that the job of the salesmen "is simply to achieve a certain volume of sales at a total profit. It may be expedient to sacrifice the profit on one item in order to make a profit on another." How would the salesmen know whether their achievement had a profit or not?

Mr. CHILD: They are given a cost list.

Co-Chairman Mr. BASFORD: So that they have a cost list and a list price and they are entitled to trade from the list price?

Mr. CHILD: Right.

Co-Chairman Mr. BASFORD: What is the difference in mark-up between the cost list and the list price?

Mr. CHILD: It varies, depending on the profit. It might be one cent on beef, for instance.

Co-Chairman Mr. BASFORD: What would it be on beef and the popular cuts of pork?

Mr. CHILD: Probably one to two cents.

Co-Chairman Mr. BASFORD: I was asking what it was.

Mr. CHILD: I would have to get these actual figures, which I will be glad to get for you. Mind you, our price list contains possibly thousands of items.

Co-Chairman Mr. BASFORD: When you say thousands of items, I am not interested in smoked meats, and so on, but would like representative figures.

Mr. CHILD: Right.

Co-Chairman Mr. BASFORD: This would be in a normal operation what would be referred to as the mark-up.

Mr. CHILD: We don't regard it that way.

Co-Chairman Mr. BASFORD: No, I know, but that is what it could be called in another type of operation. Now, the salesman can go down to the cost list, or can he go below that?

Mr. CHILD: He might in some cases even go below. He would check back with his office.

Co-Chairman Mr. BASFORD: Does he ever go above the list price?

Mr. CHILD: We hope so. I wouldn't object at all if he went above the list if he thought he could get it.

Senator THORVALDSON: That is his privilege.

Mr. CHILD: Yes, it is. He is sort of probing the market all the time.

Co-Chairman Mr. BASFORD: The list price then is a sort of confidential list, I suppose to the salesman?

Mr. CHILD: It is for his information only.

Co-Chairman Mr. BASFORD: And the cost list which you supply him with is designed to produce a profit for your company.

Mr. CHILD: It is designed to produce a profit. It is an incentive system.

Co-Chairman Mr. BASFORD: What happens between the incentive and the cost list, is that surplus profit?

Mr. CHILD: Oh, no; I wish it were.

Co-Chairman Mr. BASFORD: Just what is it, then?

Mr. CHILD: Well, we give them a so-called margin list above which he can get a margin of profit on his weekly statement. His margin list bears no relationship to our actual costs. It is an artificial list used for the purpose of salesmen's incentive, and we have all the salesmen in a particular area on the same basis, so then we can judge which salesman is doing the better job, and of course salesmen are always trying to do better than the other.

Co-Chairman Mr. BASFORD: That is their incentive, the difference between cost list, how much they can get above that?

Mr. CHILD: Right. We hope they keep striving to get better and better. If they have to give a low price to a customer we hope they will get a better one from another.

Co-Chairman Mr. BASFORD: How does the list price come in?

Mr. CHILD: This is our idea of what he should ask when he starts out for the week.

Co-Chairman Mr. BASFORD: So the fellow who is always above the list price becomes president?

Mr. CHILD: He deserves to be.

Co-Chairman Senator CROLL: Before closing the proceedings, I filed earlier, the "Anatomy of a Pig," and here I have the "Anatomy of a Choice Steer". These will be filed with the proceedings. I suggest to members of the

committee that those two papers, which will be in your hands before you leave, are worth close study before the packing companies appear before us tomorrow; there is a good deal of useful information in both of them.

Thank you, Mr. Child and Mr. Wiles, very much for appearing here this afternoon, and for the assistance you have given us. We shall expect that you will send along to us as quickly as possible the information we have asked for so that we shall be able to make the best use of it.

Mr. CHILD: Thank you, Mr. Chairman.

The committee adjourned.

APPENDIX A

BURNS FOODS LIMITED

HEAD OFFICE—CALGARY, ALBERTA

Meat Packing Plants At:
- Calgary, Alta.
- Edmonton, Alta.
- Prince Albert, Sask.
- Regina, Sask.
- Winnipeg, Man.
- Kitchener, Ont.
- Montreal, Que.

Wholesale Branches At:
- Victoria, B.C.
- Vancouver, B.C.
- Prince Rupert, B.C.
- Whitehorse, Yukon
- Yellowknife, N.W.T.
- Ft. William, Ont.

Wholly-Owned Subsidiary Companies:
- Palm Dairies Limited
- Scott National Co. Limited

Sales In 1965:

Meat Packing Division	$ 138,185,049
Palm Dairies Limited	27,574,222
Scott National Co. Limited	34,296,761
	$ 200,056,032

Net Profits On Operations:

31 December, 1961	$ 12,227 (loss)
1962	607,414
1963	621,639
1964	988,670
1965	254,345*

* After reducing depreciation by $713,007.

APPENDIX B

12 October, 1966

BURNS FOODS LIMITED

COST OF PACKAGE MATERIALS 'PER POUND'

1. Regular Smoked Ham—average 14 lbs. printed wrap with inner wrap and string—carton	1.04¢ per lb.
2. Boneless Smoked Ham—stuffed in printed casing—clip and string—average 10 lbs.—carton	2.56¢ per lb.
3. Sliced Cold Cuts—vacuum pack—6 oz. package—Label—film—carton	4.52¢ per lb.
Sliced Cold Cuts—vacuum pack—4 oz. package (export Cooked Ham)—Label—film—carton	7.56¢ per lb.
Sliced Cold Cuts—Saran overwrap—8 oz. package (Bologna)—Label—card—film—carton	5.08¢ per lb.
4. Sliced Bacon—1 lb.—Folder with overwrap—film—carton	3.60¢ per lb.
Sliced Bacon—1 lb.—vacuum pack—pouched and folder inserts	5.28¢ per lb.
Sliced Bacon—1 lb.—vacuum pack—Royal vac and folder inserts	7.09¢ per lb.
Sliced Bacon—½ lb.—vacuum pack—pouched and folder inserts—carton	8.84¢ per lb.
Sliced Bacon—½ lb.—vacuum pack—Royal vac film and folder inserts—carton	9.15¢ per lb.
Sliced Back Bacon—½ lb. vacuum pack—pouches and folder inserts—carton	8.33¢ per lb.
Sliced Back Bacon—½ lb. vacuum pack—Royal vac film and folder inserts—carton	9.15¢ per lb.
Sliced Back Bacon—6 oz. vacuum pack—pouched and folder inserts—U.S. Export—carton	11.21¢ per lb.
Sliced Back Bacon—6 oz. vacuum pack—Royal vac film and folder inserts—carton	12.20¢ per lb.
5. Wieners—1 lb.—printed overwrap and card—carton	4.65¢ per lb.
Wieners—1 lb.—vacuum pack—printed film—carton	4.95¢ per lb.

APPENDIX C

27 October, 1966

BURNS FOODS LIMITED

WAGE RATES

Average hourly earnings for Burns Foods Limited, hourly paid employees, exclusive of the Montreal plant, show an increase of 65.7 per cent over the eleven year period fom 1955 to 1966 as follows:

Year	Average Hourly Earnings Male and Female Employees	Percentage Increase over 1955
1955	$1.66	Base
1956	1.73	4.2%
1957	1.81	9.0%
1958	1.91	15.1%
1959	2.04	22.9%
1960	2.13	28.3%
1961	2.21	33.1%
1962	2.26	36.1%
1963	2.31	39.2%
1964	2.38	43.4%
1965	2.48	49.4%
1966	2.75 (Est.)	65.7%

From 1955 to 1965 (the last complete year reported by D.B.S.) inclusive, the Dominion Bureau of Statistics in their annual publication "Review of Man Hours and Hourly Earnings"* shows rises in average hourly earnings of 39.8 per cent for all Canadian Manufacturing, 39.1 per cent for the Non-durable goods section, 40.0 per cent for Food & Beverages and 31.2 per cent for Meat Products compared with a 43.4 per cent rise in average hourly earnings in Burns during the same 9 year period as follows. It should be noted that the Meat Products of D.B.S. includes poultry processors.

Year	Canadian Manufacturing — Average Hourly Earnings	Non-Durable Goods — Average Hourly Earnings	Food and Beverages — Average Hourly Earnings	Meat Products — Average Hourly Earnings	Burns Foods Limited — Average Hourly Earnings
	$	$	$	$	$
1955	1.45	1.33	1.25	1.54	1.66
1956	1.52	1.39	1.31	1.58	1.73
1957	1.61	1.47	1.39	1.67	1.81
1958	1.66	1.53	1.45	1.72	1.91
1959	1.72	1.58	1.53	1.81	2.04
1960	1.78	1.64	1.57	1.84	2.13
1961	1.83	1.68	1.61	1.89	2.21
1962	1.88	1.73	1.64	1.93	2.26
1963	1.95	1.79	1.69	1.99	2.31
1964	2.02	1.85	1.75	2.02	2.38
% Increase Over 1955	39.3%	39.1%	40.0%	31.2%	43.4%

NOTE: Average Hourly Earnings represent gross wages earned (before any deduction for income tax, unemployment insurance, etc. but including overtime pay, night premium and week end premium) divided by paid hours. Overtime hours do not include penalty hours.

* Copy of Page 10—"Review of Man Hours and Hourly Earnings—1945-64" is attached.

During the period August 1, 1955 to April 1, 1966 the basic labour rate in Burns prairie plants for men shows an increase of 64.0 per cent and for women 75.7 per cent as follows:

LABOUR RATES — PRAIRIE PLANTS

	Male	% Increase	Female	% Increase
August, 1955	$ 1.43	Base	$ 1.27½	Base
August, 1956	1.52	6.3%	1.36½	7.1%
August, 1957	1.58	10.5%	1.42½	11.8%
August, 1958	1.67	16.8%	1.56½	22.7%
February, 1959 (Cost of Living Allowance)	1.69	18.2%	1.58½	24.3%
August, 1959	1.74	21.7%	1.63½	28.2%
October, 1959 (Cost of Living Allowance)	1.75	22.4%	1.64½	29.0%
April, 1960	1.81	26.6%	1.70½	33.7%
April, 1961	1.87	30.8%	1.76½	38.4%
April, 1962	1.93	35.0%	1.82½	43.1%
April, 1963	1.98½	38.8%	1.88	47.5%
April, 1964	2.04½	43.0%	1.94	52.2%
April 1965	2.09½	46.5%	1.99	56.1%
April, 1966	2.34½	64.0%	2.24	75.7%

TABLE 1.

ANNUAL AVERAGES OF HOURLY EARNINGS OF HOURLY-RATED WAGE-EARNERS[1] BY INDUSTRY, CANADA, 1951–64

Industry	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
							dollars							
Mining	1.35	1.48	1.54	1.58	1.61	1.73	1.88	1.96	2.04	2.09	2.13	2.18	2.24	2.31
Metal mining	1.36	1.49	1.57	1.62	1.66	1.80	1.95	2.03	2.13	2.17	2.20	2.26	2.31	2.38
Gold	1.23	1.30	1.33	1.38	1.40	1.51	1.58	1.59	1.62	1.67	1.72	1.77	1.81	1.87
Other metal	1.47	1.62	1.72	1.76	1.80	1.92	2.10	2.21	2.31	2.36	2.39	2.44	2.50	2.55
Copper-gold-silver	—	—	—	—	—	1.77	1.88	1.99	2.05	2.10	2.17	2.23	2.30	2.33
Iron	—	—	—	—	—	—	—	2.18	2.29	2.44	2.48	2.61	2.72	2.80
Uranium	—	—	—	—	—	—	—	2.33	2.61	2.73	2.77	2.75	2.83	2.97
Fuels	1.40	1.52	1.54	1.54	1.56	1.64	1.79	1.88	1.93	1.97	2.01	2.10	2.12	2.20
Coal	1.37	1.50	1.50	1.48	1.48	1.50	1.62	1.73	1.74	1.75	1.77	1.83	1.80	1.92
Oil and natural gas	1.49	1.62	1.60	1.70	1.74	1.92	2.07	2.13	2.21	2.31	2.34	2.50	2.55	2.64
Non-metal	1.18	1.36	1.43	1.47	1.53	1.60	1.68	1.74	1.82	1.89	1.95	1.98	2.07	2.13
Asbestos	—	—	—	—	—	1.86	1.93	1.98	2.06	2.12	2.21	2.22	2.34	2.40
Manufacturing	1.18	1.30	1.36	1.41	1.45	1.52	1.61	1.66	1.72	1.78	1.83	1.88	1.95	2.02
Durable goods	1.27	1.41	1.48	1.52	1.56	1.64	1.73	1.80	1.87	1.94	1.99	2.04	2.11	2.19
Non-durable goods	1.08	1.18	1.23	1.30	1.33	1.39	1.47	1.53	1.58	1.64	1.68	1.73	1.79	1.85
Food and beverages	1.00	1.10	1.16	1.21	1.25	1.31	1.39	1.45	1.53	1.57	1.61	1.64	1.69	1.75
Meat products	1.28	1.39	1.45	1.50	1.54	1.58	1.67	1.72	1.81	1.84	1.89	1.93	1.99	2.02
Canned and cured fish	—	—	—	—	—	0.99	1.07	1.08	1.14	1.12	1.15	1.17	1.18	1.22
Canned and preserved fruits and vegetables	0.84	0.93	0.98	1.01	1.05	1.10	1.18	1.25	1.28	1.32	1.24	1.34	1.34	1.38
Grain mill products	1.12	1.21	1.29	1.37	1.39	1.43	1.51	1.59	1.65	1.71	1.77	1.82	1.87	1.95
Bread and other bakery products	0.91	0.98	1.04	1.08	1.11	1.19	1.28	1.34	1.41	1.45	1.48	1.53	1.63	1.72
Biscuits and crackers	—	—	—	—	—	1.04	1.10	1.16	1.23	1.30	1.37	1.42	1.49	1.58
Distilled liquors	—	—	—	—	—	—	—	1.79	1.87	2.00	2.07	2.17	2.26	2.36
Malt liquors	1.23	1.42	1.50	1.64	1.70	1.80	1.93	2.02	2.14	2.25	2.34	2.36	2.46	2.56
Confectionery	—	—	—	—	—	1.03	1.10	1.16	1.22	1.27	1.30	1.32	1.38	1.44
Tobacco and tobacco products	1.11	1.24	1.30	1.35	1.39	1.42	1.53	1.58	1.67	1.74	1.83	1.87	1.97	2.11
Rubber products	1.26	1.35	1.43	1.46	1.49	1.57	1.66	1.71	1.79	1.83	1.87	1.94	1.99	2.07
Rubber footwear	—	—	—	—	—	—	—	1.31	1.33	1.37	1.39	1.42	1.48	1.54
Other rubber products	—	—	—	—	—	—	—	1.85	1.96	2.01	2.05	2.14	2.19	2.28
Leather products	0.86	0.92	0.97	1.00	1.02	1.05	1.11	1.14	1.17	1.21	1.24	1.28	1.32	1.39
Boots and shoes (except rubber)	0.83	0.89	0.93	0.96	0.98	1.01	1.07	1.09	1.13	1.16	1.18	1.23	1.28	1.35
Other leather products	—	—	—	—	—	1.13	1.19	1.25	1.27	1.31	1.30	1.39	1.42	1.47
Textile products (except clothing)	0.97	1.04	1.08	1.10	1.12	1.15	1.21	1.25	1.29	1.34	1.38	1.42	1.47	1.55

Cotton yarn and broad woven goods	1.00	1.05	1.10	1.11	1.13	1.16	1.21	1.24	1.28	1.35	1.40	1.45	1.50	1.58
Woollen goods	0.92	1.00	1.02	1.04	1.05	1.08	1.14	1.18	1.21	1.25	1.29	1.32	1.36	1.41
Synthetic textiles and silk	0.99	1.07	1.10	1.15	1.18	1.23	1.29	1.34	1.38	1.43	1.45	1.51	1.57	1.66
Filament yarn and staple fibres	—	—	—	—	—	—	—	1.62	1.69	1.75	1.80	1.88	1.92	2.00
Spun yarn and fabrics	—	—	—	—	—	—	—	1.07	1.10	1.14	1.18	1.25	1.31	1.39
Clothing (textile and fur)	0.87	0.92	0.96	0.99	0.98	1.01	1.05	1.08	1.11	1.14	1.18	1.22	1.27	1.32
Men's clothing	0.85	0.90	0.94	0.98	0.97	1.01	1.06	1.09	1.13	1.15	1.18	1.21	1.26	1.31
Women's clothing	0.90	0.96	1.01	1.03	1.03	1.07	1.12	1.14	1.17	1.21	1.25	1.31	1.37	1.42
Knit goods	0.86	0.93	0.96	0.99	0.97	0.98	1.00	1.02	1.03	1.07	1.10	1.14	1.18	1.23
Wood products	1.07	1.15	1.21	1.26	1.29	1.34	1.40	1.46	1.49	1.58	1.61	1.65	1.72	1.79
Saw and planing mills	1.15	1.23	1.29	1.34	1.37	1.43	1.50	1.56	1.57	1.68	1.72	1.76	1.83	1.91
Plywood and veneer mills	—	—	—	—	—	1.49	1.54	1.57	1.55	1.69	1.70	1.76	1.80	1.89
Sash, door and planing mills	—	—	—	—	—	—	—	1.29	1.34	1.40	1.44	1.46	1.51	1.56
Sawmills	—	—	—	—	—	—	—	1.69	1.69	1.81	1.85	1.90	1.99	2.07
Furniture	0.97	1.05	1.10	1.14	1.18	1.23	1.29	1.34	1.38	1.44	1.47	1.51	1.56	1.61
Other wood products	0.90	0.99	1.05	1.07	1.11	1.14	1.21	1.24	1.28	1.32	1.34	1.37	1.41	1.47
Paper products	1.31	1.43	1.52	1.61	1.67	1.78	1.87	1.94	2.00	2.08	2.17	2.24	2.30	2.37
Pulp and paper mills	1.39	1.51	1.63	1.72	1.79	1.90	2.01	2.08	2.15	2.23	2.34	2.42	2.48	2.55
Other paper products	1.02	1.13	1.20	1.28	1.32	1.39	1.46	1.53	1.58	1.64	1.69	1.75	1.80	1.88
Paper boxes and bags	—	—	—	—	—	1.33	1.40	1.48	1.54	1.61	1.67	1.74	1.80	1.87
Printing, publishing and allied industries	1.33	1.49	1.59	1.66	1.73	1.81	1.89	1.98	2.08	2.16	2.22	2.31	2.40	2.48

APPENDIX D

BURNS FOODS LIMITED

COSTS AND SELLING PRICES AT CALGARY

No. 1 Sliced Bacon

Cents per Pound

1966 Week Beginning		Cost of Fresh Bellies No. 1 Grade	Cost of No. 1 Sliced Bacon	Weekly Selling Prices (Larger Buyer List)
July	4	53	89.63	90
	11	51	86.67	90
	18	52½	88.89	90
	25	52½	88.89	90
August	1	53	89.63	92
	8	53	89.63	92
	15	56	94.07	94
	22	56	94.07	96
	29	56	94.07	95
September	6	53	89.63	92
	12	53	89.63	92
	19	53	89.63	92
	26	53	89.63	92
October	3	53	89.63	92
	11	50	85.19	91
	17	49	83.71	90
	24	49	83.71	89

APPENDIX E

BURNS FOODS LIMITED

MARKET PRICES OF BY-PRODUCTS

as at 27 October, 1966

Beef	Cents Per Lb.	F.O.B.	Pork	Cents Per Lb.	F.O.B.
Livers 8/12	26	Montreal	Livers	26	Montreal
Livers 12/up	24	"	Kidneys	32	"
Kidneys	29½	"	Tails	13	"
Tails	17½	"	Headmeat	38	Calgary
Hearts	30	Calgary	Hearts	30	"
Cheeks	32	"	Tongues	35	Montreal
Tongues No. 1	33	Montreal			
Tongues No. 2	26	"			
Tripe	11½	Calgary	Lard	13½	Toronto
Taurine	9	"		13	Montreal
Edible tallow	10½	Toronto			
Inedible tallow	7¼	"			
Hides:					
Native steers	14–14¼	"			
Branded steers	12½–13	"			
Native Cows	14–14¼				
Branded Cows	12½–13				

Value of by-products:

(*a*) Per Carcass of beef	$16.08 (545 lb. average)
Per 100 lb. of beef	2.95 cwt.
(b) Per carcass of hog	$ 2.29 (155 lb. average)
Per 100 lb. of pork	1.48 cwt.

APPENDIX F

MEAT PURCHASABLE BY ONE HOUR'S WORK

CANADA

	Hourly Earnings Manufacturing	Price of Steak Per Lb.	Amount 1 Hr. Will Buy
Sirloin Steak:			
1950.......	$1.04	82.8	1.3 pounds
1955.......	1.45	80.0	1.8
1960.......	1.78	97.7	1.8
1964.......	2.02	99.9	2.0
Dec. 1965.......	2.18	110.3	2.0
May 1966.......	2.23	115.3	1.9
Side Bacon—½ lb. Package:			
1955.......	1.45	38.7	1.85 pounds
1960.......	1.78	40.5	2.20
1964.......	2.02	47.6	2.10
Dec. 1965.......	2.18	63.7	1.70
May 1966.......	2.23	62.6	1.80

APPENDIX G

BURNS FOODS LIMITED

Notes Re Cost U/S Price Figures:

1. Costs do not include overhead and selling expenses.
2. Costs shown are average for weeks in question. They do not take into consideration the additional cost of selection through elimination of undesirable or overweight animals.

Costs and Chain Store List Prices of Red Steers—1966

Week Ending	Calgary		Edmonton		Regina		P. Albert		Winnipeg		Kitchener	
	Cost	Chain Store List	Cost	Chain Store List	Cost	Chain Store List	Cost	Chain Store List	Cost	Chain Store List	Cost	Chain Store List
Jan. 7	43.83	45.00	42.77	45.00					43.75	44.50	48.17	48.00
13	43.45	45.00	43.29	46.00					43.14	45.50	48.17	48.00
20	44.69	45.00	43.06	46.50					43.46	46.00	48.00	48.00
27	46.13	46.50	44.88	47.00					44.94	46.00	48.37	48.00
Feb. 4	45.81	48.50	46.05	47.00					45.42	47.00	50.53	50.50
10	44.13	47.50	44.33	46.00					45.01	48.00	49.36	51.00
17	44.52	46.00	45.02	47.50					44.68	47.50	48.69	51.00
24	44.04	46.00	44.78	46.00					45.21	47.50	49.42	48.50
Mar. 3	43.00	46.00	44.24	46.00					43.48	47.00	48.49	48.50
10	43.62	46.00	44.53	46.00					43.62	47.00	47.85	48.50
17	43.61	46.00	44.32	45.50			44.37	46.00	43.89	47.00	47.85	48.50
24	43.02	45.50	44.06	45.00			42.90	46.00	43.18	47.00	47.24	47.50
31	41.84	45.50	43.46	45.00			43.70	46.00	42.71	47.00	47.02	47.50
Apr. 6	42.63	45.00	43.32	45.50			43.28	46.00	42.72	47.00	47.29	47.00
14	42.64	45.00	43.19	44.50			42.10	46.00	42.91	46.00	47.42	47.00
21	42.41	45.00	43.25	44.00			43.40	46.00	43.12	46.00	46.39	47.00
28	42.14	44.50	43.74	44.00			42.57	45.50	42.98	46.00	45.69	47.00
May 5	42.09	44.00	43.08	43.50			41.98	45.00	42.92	46.00	45.57	46.00
16	41.91	43.50	42.36	43.50			42.21	45.00	42.06	45.00	45.90	46.00
21	41.83	43.50	42.65	43.00			41.88	45.00	42.52	47.00	45.45	46.00
26	41.59	43.50	41.14	43.00			42.32	44.00	42.75	46.00	45.04	46.00
June 3	41.54	43.50	42.22	43.00			43.12	44.00	42.33	45.00	44.62	46.00
9	41.30	43.00	42.21	43.00			41.77	44.50	41.70	45.00	44.46	46.00
16	41.06	43.00	41.18	42.00			41.94	44.50	41.79	45.00	44.31	46.00
23	41.02	43.00	41.16	42.00			41.52	44.00	40.99	45.00	44.82	45.50
29	40.46	42.00	40.86	42.00			41.18	44.00	41.07	45.00	43.61	45.00

July 7	40.08	42.00	40.68	42.00	41.55	44.50	40.35	45.00	43.19	45.00
14	39.73	42.00	40.90	42.00	41.12	44.50	40.11	44.00	43.63	44.50
21	39.62	42.50	40.25	43.50	41.33	44.50	41.18	44.00	44.30	44.50
28	40.13	44.00	41.19	43.50	41.13	44.50	41.08	44.00	44.40	45.00
Aug. 4	40.06	43.00	40.70	44.50	43.02	45.00	40.79	44.00	44.52	46.50
11	40.71	43.00	40.80	43.50	42.26	45.00	40.94	44.00	44.19	46.00
18	39.96	43.00	40.44	43.50	42.06	45.00	40.59	44.00	44.05	46.00
25	39.88	43.00	40.04	43.50	41.29	45.00	41.25	45.00	44.35	46.00
Sept. 1	39.63	44.00	40.03	43.50	41.56	44.00	41.65	45.00	45.72	48.50
8	40.28	44.00	40.26	43.50	41.88	44.00	42.14	46.00	45.20	48.50
15	41.11	44.00	41.00	44.50	43.29	43.50	42.09	46.00	45.74	48.00
22	41.76	45.00	42.04	45.00	43.28	45.50	42.96	45.50	47.50	48.00
29	42.10	46.00	42.83	45.00	43.63	46.00	43.55	47.64	47.64	48.50
Oct. 6	41.96	45.50	43.12	44.50	44.28	46.00	43.54	45.00	47.33	48.50
13	42.18	45.50	43.00	45.00	44.79	46.50	43.88	47.00	47.81	48.00
21	42.44	46.00	42.57	44.50	43.87	46.50	44.86	48.00	47.95	48.00
28	41.80	44.25	43.06	44.00	44.43	46.50	45.31	46.00	47.77	48.00

APPENDIX H

HOG PRICES

Monthly Average Price and Price Index—Grade "A" Carcasses, Toronto

(1949=100) (Grade A 1949=$30.60)

	1961		1962		1963		1964		1965		1966	
	$	%	$	%	$	%	$	%	$	%	$	%
Jan	30.06	98.2	26.63	87.0	30.27	98.9	26.85	87.7	27.44	89.7	42.73	139.6
Feb	29.50	96.4	26.83	87.7	29.89	97.7	27.61	90.2	28.23	92.2	43.19	141.1
Mar	27.28	89.2	26.88	87.8	26.89	87.9	25.92	84.7	27.80	90.8	36.12	118.0
April	25.38	82.9	27.23	89.0	24.25	79.2	25.38	82.9	27.94	91.3	32.90	107.5
May	27.05	88.4	27.92	91.2	26.49	86.6	26.40	86.3	30.46	99.5	36.83	120.4
June	29.53	96.5	31.09	101.6	29.55	96.6	29.08	95.0	34.81	113.8	38.29	125.1
July	29.89	97.7	33.07	108.1	29.96	97.7	28.41	92.8	36.24	118.4	35.12	114.8
Aug	28.84	94.2	32.80	107.2	28.99	94.7	28.10	91.8	36.66	119.8	33.98	111.0
Sept	29.40	96.1	30.60	100.0	28.60	93.5	28.24	92.3	36.88	120.5	33.92	110.8
Oct	28.67	93.7	29.59	96.7	26.57	86.8	27.13	88.7	35.90	117.3		
Nov	27.61	90.2	30.30	99.0	26.32	86.0	27.12	88.6	37.58	122.8		
Dec	27.16	88.8	30.42	99.4	26.88	87.8	28.63	90.3	41.64	136.1		
Year	28.30	92.5	29.60	96.7	27.80	90.8	27.30	89.2	33.40	109.2		

Monthly Average Price and Price Index Nos. 1, 2 and 3 Barrows and Gilts, Chicago
(Live Prices Converted to Dressed Equivalent on a Basis of 75 Per cent)

(1949=100) (Barrows and Gilts 1949=29.87)

	1961		1962		1963		1964		1965		1966	
	$	%	$	%	$	%	$	%	$	%	$	%
Jan	24.04	80.2	23.49	78.4	21.72	72.5	20.52	68.5	22.69	75.7	38.89	129.8
Feb	24.72	82.5	22.72	75.8	20.69	69.0	20.37	68.0	23.49	78.4	38.31	127.8
Mar	23.88	79.7	22.25	74.2	19.15	63.9	20.11	67.1	23.49	78.4	33.60	112.1
Apr	23.47	78.3	22.08	73.7	18.96	63.3	19.87	66.3	24.51	81.8	31.45	104.9
May	23.04	76.9	21.63	72.2	20.93	69.8	21.13	70.5	28.21	94.1	33.04	110.2
June	23.36	77.9	23.68	79.0	23.77	79.3	22.45	74.9	32.28	107.7	34.52	115.2
July	24.41	81.4	25.13	83.8	25.21	84.1	23.88	79.7	33.12	110.5	34.24	114.2
Aug	24.61	82.1	25.12	83.8	23.65	78.9	23.36	77.9	33.47	111.7	35.16	117.3
Sept	24.44	81.5	25.47	85.0	21.57	72.0	23.04	76.9	31.17	104.0	32.33	107.9
Oct	23.20	77.4	23.03	76.8	21.08	70.3	21.41	71.4	32.13	107.2		
Nov	22.07	73.6	22.91	76.4	20.21	67.4	20.40	68.1	33.75	112.6		
Dec	33.19	110.7	22.75	75.9	20.21	67.4	21.97	73.3	38.39	128.1		
Year	23.71	79.1	23.36	77.9	21.43	71.5	21.55	71.9	29.72	99.2		

MONTHLY AVERAGE CHOICE STEERS

Prices and Price Index for Choice Steers, Toronto
(1949=100) (Choice steers 1949=$22.07)

	1961		1962		1963		1964		1965		1966	
	$	%	$	%	$	%	$	%	$	%	$	%
Jan.	24.76	112.2	26.62	120.6	26.02	117.9	22.91	103.8	23.56	106.8	27.74	125.7
Feb.	24.32	110.2	25.18	114.1	24.26	109.9	23.54	106.6	23.60	106.9	28.72	130.1
Mar.	24.03	118.9	24.86	112.6	23.40	106.0	23.85	108.1	24.00	108.7	28.32	128.3
April	23.43	106.2	25.25	114.4	23.80	107.8	24.25	109.9	24.00	108.7	27.37	124.0
May	23.23	105.2	25.57	115.8	24.25	109.9	24.25	109.9	24.91	112.9	26.85	121.6
June	22.47	101.8	26.38	119.5	24.78	112.3	24.25	109.9	26.86	121.7	26.08	118.2
July	22.22	100.7	27.84	126.1	26.89	121.8	24.78	112.3	26.84	121.6	25.64	116.2
Aug.	22.65	102.6	28.61	129.6	27.00	122.3	24.25	109.9	26.28	119.1	25.56	115.8
Sept.	24.08	109.1	29.36	133.0	26.60	120.5	24.26	109.9	25.67	116.3	27.24	123.4
Oct.	24.50	111.0	29.50	133.7	24.81	112.4	23.70	107.4	25.50	115.5		
Nov.	25.49	115.5	29.46	133.5	24.50	111.0	23.26	105.4	26.06	118.1		
Dec.	26.78	121.3	28.27	128.1	23.74	107.6	23.50	106.5	26.79	121.4		
Year	24.20	109.6	27.20	123.2	25.05	113.5	24.05	109.0	25.20	114.2		

MONTHLY AVERAGE CHOICE STEERS

Prices and Price Index for Choice Steers, Omaha
(1949=100) (Choice steers 1949=$25.02)

	1961		1962		1963		1964		1965		1966	
	$	%	$	%	$	%	$	%	$	%	$	%
Jan.	26.74	106.9	25.06	103.0	26.49	105.9	22.20	88.7	22.98	91.8	25.91	103.6
Feb.	26.15	104.5	25.95	103.7	24.47	97.8	21.36	85.4	22.53	90.0	27.16	108.6
Mar.	25.52	102.2	26.36	105.4	22.88	91.4	21.38	85.4	23.17	92.6	28.25	112.9
April	24.87	99.4	26.81	107.2	23.10	92.3	20.88	83.4	24.38	97.4	26.94	107.7
May	23.22	92.8	25.50	101.9	22.27	89.0	20.28	81.0	26.00	103.9	25.94	103.7
June	22.42	89.6	25.07	100.2	22.52	90.0	21.25	84.9	26.69	106.7	25.25	100.9
July	22.34	89.3	25.68	102.6	24.57	98.2	22.69	90.7	25.05	104.1	25.27	101.0
Aug.	23.87	95.4	27.41	109.6	24.40	97.5	24.73	98.8	26.28	105.0	25.76	103.0
Sept.	23.78	95.0	28.83	115.2	23.98	95.8	24.75	98.9	26.19	104.7	25.75	102.9
Oct.	23.96	95.8	28.46	113.7	23.74	94.9	23.66	94.6	25.33	101.2		
Nov.	24.83	99.2	29.12	116.4	22.92	91.6	23.45	93.7	24.93	99.6		
Dec.	25.51	102.0	28.12	112.4	21.64	86.5	22.79	91.1	25.38	101.4		
Year	24.43	97.6	26.92	107.6	23.58	94.2	22.41	89.6	24.99	99.9		

TOBACCO, AVERAGE FARM PRICE,[a] CANADA, 1961–1965

	Farm Price, Green Weight	Price Index 1949=100.0
All Types	¢/lb.	
1949	39.66	100.0
1961	50.23	126.6
1962	47.24	119.1
1963	45.08	113.7
1964	54.18	136.6
1965	62.88	158.5
Flue Cured		
1949	42.08	100.0
1961	51.61	122.6
1962	48.28	114.7
1963	45.94	109.2
1964	55.61	132.2
1965	64.58	153.5

[a] Average price paid by buyers at tobacco auctions for all grades of tobacco.

APPENDIX I

MONTHLY AVERAGE CHOICE STEERS

Prices and Price Index for Choice Steers, Toronto
(1949=100) (Choice steers 1949=$22.07)

	1961		1962		1963		1964		1965		1966	
	$	%	$	%	$	%	$	%	$	%	$	%
Jan	24.76	112.2	26.62	120.6	26.02	117.9	22.91	103.8	23.56	106.8	27.74	125.7
Feb	24.32	110.2	25.18	114.1	24.26	109.9	23.54	106.6	23.60	106.9	28.72	130.1
Mar	24.03	118.9	24.86	112.6	23.40	106.0	23.85	108.1	24.00	108.7	28.32	128.3
Apr	23.43	106.2	25.25	114.4	23.80	107.8	24.25	109.9	24.00	108.7	27.37	124.0
May	23.23	105.2	25.57	115.8	24.25	109.9	24.25	109.9	24.91	112.9	26.85	121.6
June	22.47	101.8	26.38	119.5	24.78	112.3	24.25	109.9	26.86	121.7	26.08	118.2
July	22.22	100.7	27.84	126.1	26.89	121.8	24.78	112.3	26.84	121.6	25.64	116.2
Aug	22.65	102.6	28.61	129.6	27.00	122.3	24.25	109.9	26.28	119.1	25.56	115.8
Sept	24.08	109.1	29.36	133.0	26.60	120.5	24.26	109.9	25.67	116.3	27.24	123.4
Oct	24.50	111.0	29.50	133.7	24.81	112.4	23.70	107.4	25.50	115.5		
Nov	25.49	115.5	29.46	133.5	24.50	111.0	23.26	105.4	26.06	118.1		
Dec	26.78	121.3	28.27	128.1	23.74	107.6	23.50	106.5	26.79	121.4		
Year	24.20	109.6	27.20	123.2	25.05	113.5	24.05	109.0	25.20	114.2		

MONTHLY AVERAGE CHOICE STEERS

Prices and Price Index for Choice Steers, Omaha
(1949=100) (Choice steers 1949=$25.02)

	1961		1962		1963		1964		1965		1966	
	$	%	$	%	$	%	$	%	$	%	$	%
Jan	26.74	106.9	25.26	103.0	26.49	105.9	22.20	88.7	22.98	91.8	25.91	103.6
Feb	26.15	104.5	25.95	103.7	24.47	97.8	21.36	85.4	22.53	90.0	27.16	108.6
Mar	25.52	102.2	26.36	105.4	22.88	91.4	21.38	85.4	23.17	92.6	28.25	112.9
Apr	24.87	99.4	26.81	107.2	23.10	92.3	20.88	83.4	24.38	97.4	26.94	107.7
May	23.22	92.8	25.50	101.9	22.27	89.0	20.28	81.0	26.00	103.9	25.94	103.7
June	22.42	89.6	25.07	100.2	22.52	90.0	21.25	84.9	26.69	106.7	25.25	100.9
July	22.34	89.3	25.68	102.6	24.57	98.2	22.69	90.7	26.05	104.1	25.27	101.0
Aug	23.87	95.4	27.41	109.6	24.40	97.5	24.73	98.8	26.28	105.0	25.76	103.0
Sept	23.78	95.0	28.83	115.2	23.98	95.8	24.75	98.9	26.19	104.7	25.75	102.9
Oct	23.96	95.8	28.46	113.7	23.74	94.9	23.66	94.6	25.33	101.2		
Nov	24.83	99.2	29.12	116.4	22.92	91.6	23.45	93.7	24.93	99.6		
Dec	25.51	102.0	28.12	112.4	21.64	86.5	22.79	91.1	25.38	101.4		
Year	24.43	97.6	26.92	107.6	23.58	94.2	22.41	89.6	24.99	99.9		

APPENDIX J

MONTHLY AVERAGE WHOLESALE AND RETAIL SELLING PRICES JANUARY–SEPTEMBER 1966
SELECTED FRESH PRODUCTS IN CENTS PER POUND

	January	February	March	April	May	June	July	August	Septemher
POTATOES (*Canada No. 1 Grade*)									
To the N.B. grower	1.9	2.0	2.3	2.6	3.1	1.6	—	1.2	1.1
Montreal Wholesale (N.B. 50's)	3.0	3.2	3.5	3.8	4.5	3.5	—	no quotes on 50's	
Retail Selling	6.1	6.3	6.3	7.2	7.6	7.9	7.4	6.7	5.3
CARROTS									
To the grower					N/A				
Toronto Wholesale (24/20 oz.)	6.8	7.6	7.6	8.3	—	—	—	5.4	4.7
Retail Selling	12.5	13.5	15.2	16.5	18.1	19.9	18.9	17.1	13.3
ONIONS									
To the grower					N/A				
Toronto Wholesale (15/3 lbs.)	3.8	3.8	3.7	4.1	7.8	8.3	—	10.7	8.6
Retail Selling	11.5	11.5	11.7	11.8	13.8	18.0	17.9	19.7	18.3
TOMATOES									
To the grower					N/A				
Toronto Wholesale (6 qt. bskt. 10 lbs.)	—	—	—	—	—	—	18.5	12.7	8.1
Retail Selling	—	—	—	—	—	—	37.4	33.0	24.5
To the grower					N/A				
Vancouver Wholesale (4 bskt. crate 20 lbs.)	—	—	—	—	—	—	—	18.7	18.2
Retail Selling	—	—	—	—	—	—	—	33.0	24.5
APPLES									
To the grower					N/A				
Toronto Wholesale (carton 42 lbs.)	8.1	8.2	7.3	6.0	6.5	9.9[1]	9.2[1]	10.0[1]	8.2
Retail Selling	16.0	16.1	17.4	18.1	19.1	19.7	20.6	24.0	22.1
To the grower					N/A				
Vancouver Wholesale (carton 42 lbs.)	11.3	11.4	14.1[1]	14.8[1]	14.9[1]	—	—	—	12.1
Retail Selling	16.0	16.1	17.4	18.1	19.1	19.7	20.6	24.0	22.1
PEACHES									
To the grower					N/A				
Toronto Wholesale (6 qt. bskt. 10 lbs.)	—	—	—	—	—	—	—	12.7	12.0
Retail Selling					N/A				
To the grower					N/A				
Vancouver Wholesale (carton 20 lbs.)	—	—	—	—	—	—	—	13.5	14.7
Retail Selling					N/A				

[1] C.A. Storage Apples

Average Price Received by Ontario Growers
For Raw Product Delivered to Factory Expressed
as Cents Per Tin as Compared with National
Average Retail Price Per Tin of Choice Grade
During Crop Years (August–July) 1961–62 to 1965–66

	1961–62	1962–63	1963–64	1964–65	1965–66
Canned Peaches (15 oz.)					
To the grower	4.7	5.4	5.4	5.7	6.5
Retail Selling	23.2	24.3	25.9	26.2	29.2
Canned Pears (15 oz.)					
To the grower (Bartlett)	6.0	5.7	6.0	5.9	7.1
Retail Selling	21.5	21.3	22.0	22.7	24.2
Canned Tomatoes (28 oz.)					
To the grower	5.3	5.5	5.5	5.4	6.0
Retail Selling	26.7	26.5	29.9	33.1	35.3
Canned Corn (20 oz.)					
To the grower	4.3	4.0	4.4	4.3	4.2
Retail Selling	21.8	21.4	22.4	23.8	23.4
Canned Peas (15 oz.)					
To the grower	3.3	3.3	3.3	3.2	3.4
Retail Selling	17.9	18.1	18.4	18.6	19.2

AVERAGE PRICES RECEIVED BY GROWERS,
WHOLESALE SELLING PRICE AND RETAIL SELLING PRICE
OF SPECIFIED FRESH PRODUCTS IN CENTS
PER POUND DURING CROP YEARS 1961–62 TO 1965–66

	1961–62	1962–63	1963–64	1964–65	1965–66
Potatoes (Canada No. 1 Grade)					
To the N. B. grower	0.9	1.3	1.5	2.9	2.0
Montreal Wholesale (N. B. 50's)	1.9	2.6	2.7	4.2	3.3
Retail Selling	5.4	6.1	6.8	9.2	7.5
Carrots					
To the Ontario grower	1.8	2.2	1.8	2.1	1.3
Toronto Wholesale (24/20 oz.)	5.5	5.3	4.5	5.6	6.3
Retail Selling	12.9	13.0	12.1	12.9	13.9
Onions					
To the Ontario grower	3.6	2.5	1.8	2.6	1.3
Toronto Wholesale (15/3 lbs.)	6.9	4.8	4.3	5.3	5.1
Retail Selling	13.5	12.1	11.7	12.9	13.1
Tomatoes					
To the Ontario grower	4.1	4.5	4.9	5.7	4.3
Toronto Wholesale (6 qt. bskt. 10 lbs.)	10.2	7.5	9.7	8.5	7.8
Retail Selling	24.2	24.4	24.4	25.8	26.2
To the B.C. grower	5.4	4.0	10.0	6.0	6.8
Vancouver Wholesale (4 bskt. crate 20 lbs.)	14.2	14.1	14.6	14.4	16.2
Retail Selling	24.2	24.4	24.4	25.8	26.2
Apples					
To the Ontario grower	2.9	3.3	3.7	4.5	4.0
Toronto Wholesale (carton 42 lbs.)	5.7	6.9	7.8	7.8	7.5
Retail Selling	15.3	15.8	16.6	17.2	17.2
To the B. C. grower	5.0	4.5	3.5	4.0	5.5
Vancouver Wholesale (cartons 42 lbs.)	11.6	10.8	10.8	11.2	11.2
Retail Selling	15.3	15.8	16.6	17.2	17.2
Peaches					
To the Ontario grower	4.2	6.1	6.7	6.9	7.4
Toronto Wholesale (6 qt. bskt. 10 lbs.)	7.2	9.6	9.3	10.6	11.5
Retail Selling			N/A		
To the B. C. grower	3.7	3.9	4.4	3.6	[1]
Vancouver Wholesale (carton 20 lbs.)	11.1	10.3	11.8	11.6	—
Retail Selling			N/A		

[1] No Commercial Crop

NOTE—Grower prices, with the exception of potatoes, represent the average farm value of the crop less that portion processed as compiled by D.B.S. Potato prices are those paid to the grower for Canada No. 1 Grade as compiled by Markets Information Section. Wholesale Prices are Canada Fancy Grade McIntosh Apples and Canada No. 1 Grade for other products. Retail prices are national averages as compiled by D.B.S. They are quoted as No. 1 grade for potatoes and onions but no grade is specified for carrots, tomatoes and apples.

APPENDIX K

POTATO PRODUCTION COSTS—NEW BRUNSWICK

Average Cost Per Acre—31 Farms

	1959–1960(1)	1966 Estimate(2)
	$	$
Seed	31.73	45.00
Fertilizer	52.73	57.50
Spray	11.06	17.50
Use of machinery	42.57	67.50
Use of land	3.28	12.00
Seed cutting	5.08	
Picking	27.05	100.00 all labour
Other Labour	38.39	
Storage	12.98	25.00
Other	8.34	10.00
Total	233.21	334.50
No. barrels per acre	139	139
Cost per barrel (165 lbs.)	1.67	2.40
Cost per lb. (cents)	1.00	1.45

(1) SOURCE: Report of the Royal Commission on the New Brunswick Potato Industry 1962.

(2) Fruit and Vegetable Division.

APPENDIX L

ANATOMY OF A PIG

1. *MARKETING* (Farm to Packing Plant)

	"Direct" Producers' Costs	*Packers' Transportation Costs*
(1) Through a Public Stockyard	Trucking to P.S.Y. Commission 25 cents per head (approx.) Yardage 35 cents per head (approx.)	Moving hogs from P.S.Y. to Plant
(2) Direct to Plants	Trucking to Plant	Nil
(3) Through a Marketing Board (Ontario for example)	Trucking to Assembly Yard Marketing Board charge 40 cents	Moving from Assembly Yard to Plant

2. *PROCESSING* (From delivery of hog at Packing Plant to delivery of pork products to buyer (retailer, wholesaler or on export))

Expenses involved in processing (including buying costs)

1. Buying
2. Killing
3. Chilling
4. Cutting (includes defatting and boning in varying degrees)
5. Curing
6. Smoking
7. Cooking
8. Packaging
9. Storage (as may be required)
10. Selling
11. Delivery

"*Credits*" (Revenue producing by-products—other than products derived from the carcass)

Heart
Liver
Killing fats
Glands
Blood
Hair

3. *BREAKDOWN (COMPONENTS) OF A HOG CARCASS IN A PACKING PLANT*

Average Weight (warm) of carcasses

155 lbs. approximately

At an estimated average yield of 77 percent the approximate average weight of live hogs is 201 lbs.

Approximate yield of Fresh (not cured and/or smoked) product from a carcass (warm dressed weight basis)

The yield of individual cuts varies considerably, due mainly to the degree of defatting and also to the type of hog.

	With Back made into a "Loin"	Weight from 155 lb. Carcass	With Back made into a "Boneless Back"	Weight from 155 lb. Carcass
	—percent—		—percent—	
(a) *Five Major Cuts*				
Ham	20.5	31.8	20.5	31.8
Loin	13.9	21.5	8.9	13.8
Belly	13.2	20.5	13.2	20.5
Butt	7.7	11.9	7.7	11.9
Picnic	7.6	11.8	7.6	11.8
5 major cuts	62.9	97.5	57.9	89.8
(b) *Secondary Products*				
Hock, feet and tail	4.3	6.7	4.3	6.7
Spareribs, back and ribs	3.0	4.6	3.5	5.4
Tenderloin	nil	—	0.8	1.2
Kidney	0.4	0.6	0.4	0.6
Head and Tongue	6.1	9.5	6.1	9.5
Jowls and Trimmings	3.1	4.8	3.6	5.6
Leaf fat, back fat, and lard fat	13.2	20.5	14.2	22.0
Bones	2.0	3.1	4.2	6.5
Skin and Scrap	2.0	3.1	2.0	3.1
Shrink (cooler and cutting)	3.0	4.6	3.0	4.6
	37.1	57.5	42.1	65.2
Total =	100.0	155 pounds	100.0	155 pounds

N.B. If the 5 major cuts are sold in the form of boneless cured and smoked product, the percentage yield from the carcass is sharply reduced:

Major Cut	Approximate % Yield from Carcass (Warm dressed weight)
Ham	13.0
Back	8.9
Belly	11.7
Butt	6.9
Picnic	7.0
	47.5

The packer derives at least 80 percent of the total return from a carcass, out of the product of the five major cuts.

4. *LIST OF THE MAIN PORK PRODUCTS (AVAILABLE TO RETAILER) FROM THE FIVE MAJOR CUTS*

(a) *Products in "bone-in" (not boneless) form*

If major cuts are sold in "bone-in" form a packer would produce some, or all, of the following products:

Fresh	Cured and/or smoked and/or fully cooked ("ready to eat")
Ham—Whole ham	(1) Ham cured and smoked, either whole or portions thereof. —Skin on; partly skinned; fully skinned. —Shank on or shankless. —May be "ready to eat" (2) Packaged centre slices of above product.
Back—Whole Loin	(very little sold)
Belly—Whole belly—may be "rib in" or "rib out"	Nil
Butt[1]—Whole butt or portion thereof	Nil
Picnic[1]—Whole picnic —Shank on or shankless	(1) Whole picnic cured and smoked. —Shank on or shankless. —May be "ready to eat" (2) Whole picnic, cured, not smoked.

[1] The butt and picnic may be sold in one original piece as:
(a) A "New York Shoulder" (partly skinned; neckbone removed; shank on or shankless).
(b) A "Montreal Shoulder" (fully skinned; neckbone on; shankless).

(b) *Products in "Boneless" Form*

If major cuts are sold in "boneless" form, a packer would produce some or all of the following products:

Fresh	Cured and/or smoked and/or fully cooked ("ready to eat")
Hams:—Boned and rolled —skin on or skin off	(1) Cryovac or cellophane wrapped boneless smoked ham, either whole or some portion thereof. —may be fully cooked (2) Packaged slices of above product. (3) Whole cooked hams, cured but not smoked. —packaged slices of above product (4) Canned hams
Back:—Boneless Back —Long or short cut —May be two tied together	(1) Boneless cured and smoked back, whole or pieces. —Packaged slices of above product. (2) Cured (not smoked) back, whole or pieces. —Packed slices of above product.
Belly:—Nil	(1) Cured and smoked side ready for slicing —Rind on or rind off (2) Packaged sliced bacon.
Butt:—Boned and rolled	(1) Cryovac or cellophane wrapped boneless smoked butt, whole or halves. —may be fully cooked This cut is generally referred to as a "Cottage Roll" and may be sold unwrapped. (2) Cryovac or cellophane wrapped, cured (not smoked) butt, whole or halves.
Picnic:—Nil	(1) Cryovac or cellophane wrapped, boneless cured and smoked picnics, whole or halves. —may be fully cooked (2) Cryovac or cellophane wrapped, cured (not smoked) picnic, whole or halves. (3) Canned picnics

5. *SECONDARY (PORK PRODUCTS DERIVED FROM OTHER THAN THE FIVE MAJOR CUTS) HANDLED AT RETAIL LEVEL*

Product	*Form*
Hocks	Fresh, pickled; Boned, pickled, cooked and jellied.
Feet	Fresh, pickled; Boned, pickled, cooked and jellied.
Tongues	Pickled; Pickled, cooked and jellied; Canned.
Spare-ribs	Fresh
Tenderloins	Fresh
Kidneys	Fresh
Jowls	Cured and smoked
Fat	Packaged Lard.

N.B.—Heart and Liver are removed on the killing floor and form part of the "credits" (revenue producing by-products—other than those derived from the carcass). Therefore, they are not included in "secondary products+ from the carcass (as listed on page 2). However, they are sold at retail in fresh form.

6. *PRICE RELATIONSHIP OF 5 MAJOR WHOLESALE CUTS*

There is not any definite stable pattern, due to supply and demand, but in general:
—Loins bring the highest price
—Hams generally rank second
—There is usually some discount on butts under hams
—Bellies, generally, over a long period, will average a little discount under butts. However, Canadians are heavy consumers of bellies (breakfast bacon) and in times of light hog runs, as has been the case since mid 1965, bellies will sell higher than butts.
—Picnics bring the lowest price.

Official price data on all of the five major cuts is not available. L. N. Reynolds Company Ltd., Meat Brokers in Toronto, issue a weekly market letter. Their quotations, for Toronto, for representative weeks are listed below:

Week Ending	Hams	Backs	Bellies	Butts	Picnics
Oct. 22, 1966	47	73 – 75	45	49	40
Sept. 24, 1966	45	86 – 87	53 – 54	55	47 – 38
Aug. 20, 1966	50½– 51	76 – 77	58 – 59	56 – 57	36
July 23, 1966	50 – 50½	70 – 71	50½– 51	49 – 51	36 – 37
June 18, 1966	47½– 48	72 – 73	54½	48	41 – 42
May 21, 1966	49	69 – 70	49 – 51	45 – 45½	41 – 42
Apr. 23, 1966	45 – 46	61 – 62	47 – 47½	40 – 41	36 – 37
Mar. 26, 1966	48 – 49	64 –	42 –	48 – 49	39 – 40
Feb. 19, 1966	60½– 61	75 –	54 – 54½	57 – 58	47 – 48½
Jan. 22, 1966	61 – 61½	72 –	53 – 54	53 – 54	44
Dec. 18, 1965	59½– 61	72 –	52 – 53	55 – 56	45 – 46
Nov. 20, 1965	54½– 55½	70 – 71	47½– 48	53 – 53½	43 – 43½
Oct. 23, 1965	47½– 48	73 – 74	47½– 48	49 –	39 –
Sept. 25, 1965	47 – 47½	69 – 70	50 – 51	47 – 48	35 – 36
Aug. 21, 1965	51 – 51½	67 –	54 – 55	44 – 45	34 – 35
July 24, 1965	51 – 52	62 –	50 – 51	43½– 44½	32 –
June 26, 1965	51 – 51½	63 –	45 – 45½	44– 46	32 – 33
May 22, 1965	44½– 45	58 – 59	37 – 38	36 – 37	30 – 31
Apr. 24, 1965	42 – 42½	52½–	32½– 33½	35½– 36	28½– 29
Mar. 27, 1965	43 – 43½	52½– 53½	32½– 33	36 – 36½	28½– 29
Feb. 27, 1965	41 – 41½	53½– 54	33 – 33½	36½– 37½	29
Jan. 23, 1965	41 –	51 – 52	29½– 30	33 – 33½	

AVAILABLE PRICE DATA RE HOGS AND PORK PRODUCTS

(A) *SOURCE: C.D.A.*

1. Grade A carcasses (weekly, monthly and annual)
2. Weekly average wholesale Dressed Meat Prices. (Maritime Centres, Montreal, Toronto area, Winnipeg, Edmonton and Vancouver).
   Ham, boneless, smoked, not fully cooked
   Cooked ham, cured not smoked. Boiled (whole)
   Loins, fresh, regular trim
   Side Bacon, rindless, flat pack
   Shoulder, New York trim, fresh, shankless
   Cottage rolls (butt), smoked, not fully cooked
   Picnic, shankless, smoked, not fully cooked
   Sausage, pure pork, lb. package

(B) *SOURCE: D.B.S.*

1. Monthly Average Wholesale prices at specified cities (Maritime Centres, Montreal, Toronto, Winnipeg and Vancouver).
   - Hams, boneless, smoked not fully cooked
   - Fresh loin regular trim
   - Bacon, rindless 1/2 lb. pack
   - New York shoulder, shankless, picnic shankless, smoked, fully cooked
   - Sausage (pure pork) 1 lb. pack

2. Monthly Average Retail prices at specified cities (Halifax, St. John, Montreal, Toronto, Winnipeg, Regina, Edmonton and Vancouver).
   - Pork chops
   - Bacon, rindless 1/2 lb. pack
   - Boston butt, fresh
   - Sausage (pure pork) 1 lb. pack

3. National Monthly Average Retail Prices
   - Ham, boneless, smoked, not fully cooked
   - Pork chops
   - Bacon, rindless 1/2 lb. pack
   - Boston butt, fresh
   - Sauasage, 1 lb. pack.

TABLE I

HOG MARKETINGS

CANADA

Weekly Average Gradings
-000-

	1961	1962	1963	1964	1965	1966
January	119.4	144.2	119.9	141.0	150.2	120.3
February	120.2	140.7	125.2	146.8	146.4	129.7
March	124.8	144.6	130.5	137.2	153.6	138.2
April	133.4	138.7	128.4	150.0	148.3	132.8
May	118.0	126.9	122.9	135.0	141.5	126.4
June	113.5	116.5	117.1	130.5	128.3	121.0
July	110.0	105.3	110.5	121.5	124.7	117.0
August	111.1	108.3	112.9	123.4	124.6	124.2
September	125.1	117.2	126.3	135.2	129.5	132.2
October	137.5	130.6	140.1	141.7	131.8	
November	147.8	135.3	142.4	153.8	135.2	
December	128.4	116.4	128.5	162.7	121.8	
Year	124.0	126.8	125.4	140.0	136.1	
Total Gradings	6,449.0	6,593.9	6,520.8	7,281.6	7,077.1	

United States

Weekly Average Inspected Slaughter
-000-

	1961	1962	1963	1964	1965	1966
January	1,436.0	1,524.5	1,583.2	1,739.0	1,511.8	1,179.8
February	1,269.5	1,328.0	1,416.2	1,474.5	1,325.2	1,162.5
March	1,222.0	1,245.0	1,311.8	1,284.0	1,306.8	1,161.2
April	1,262.2	1,418.0	1,585.8	1,620.2	1,450.5	1,325.8
May	1,399.2	1,450.0	1,477.5	1,369.0	1,179.8	1,228.2
June	1,081.6	1,008.2	976.0	1,007.6	943.4	934.4
July	1,080.0	1,174.8	1,248.8	1,232.0	1,107.2	1,057.0
August	1,278.5	1,303.5	1,293.5	1,210.2	1,187.5	1,272.0
September	1,048.0	947.4	1,173.6	1,126.0	1,095.0	1,175.4
October	1,555.8	1,660.8	1,693.8	1,701.0	1,355.2	
November	1,581.8	1,594.0	1,594.8	1,636.5	1,375.8	
December	1,147.6	1,190.8	1,339.0	1,329.6	1,002.0	
Year	1,262.2	1,303.3	1,376.5	1,378.2	1,225.2	
Total Slaughter	65,632.0	67,770.0	71,577.0	71,667.0	63,708.0	

TABLE II

HOG PRICES

Toronto

Monthly Average Price — Grade "A" Carcasses

	1961	1962	1963	1964	1965	1966
	$	$	$	$	$	$
January	30.06	26.63	30.27	26.85	27.44	42.73
February	29.50	26.83	29.89	27.61	28.23	43.19
March	27.28	26.88	26.89	25.92	27.80	36.12
April	25.38	27.23	24.25	25.38	27.94	32.90
May	27.05	27.92	26.49	26.40	30.46	36.83
June	29.53	31.09	29.55	29.08	34.81	38.29
July	29.89	33.07	29.96	28.41	36.24	35.12
August	28.84	32.80	28.99	28.10	36.66	33.98
September	29.40	30.60	28.60	28.24	36.88	33.92
October	28.67	29.59	26.57	27.13	35.90	
November	27.61	30.30	26.32	27.12	37.58	
December	27.16	30.42	26.88	27.63	41.64	
Year	28.30	29.60	27.80	27.30	33.40	

Chicago

Monthly Average Price Nos. 1, 2 and 3 Barrows and Gilts
(Live Prices Converted to Dressed Equivalent on a Basis of 75 Percent)

	1961	1962	1963	1964	1965	1966
	$	$	$	$	$	$
January	24.04	23.49	21.72	20.52	22.69	38.89
February	24.72	22.72	20.69	20.37	23.49	38.31
March	23.88	22.25	19.15	20.11	23.49	33.60
April	23.47	22.08	18.96	19.87	24.51	31.45
May	23.04	21.63	20.93	21.13	28.21	33.04
June	23.36	23.68	23.77	22.45	32.28	34.52
July	24.41	25.13	25.21	23.88	33.12	34.24
August	24.61	25.12	23.65	23.36	33.47	35.16
September	24.44	25.47	21.57	23.04	31.17	32.33
October	23.20	23.03	21.08	21.41	32.13	
November	22.07	22.91	20.21	20.40	33.75	
December	33.19	22.75	20.21	21.97	38.39	
Year	23.71	23.36	21.43	21.55	29.72	

TABLE III

WHOLESALE DRESSED MEAT PRICES[1]—TORONTO

	Smoked Ham	Cooked Ham	Loin	Bacon	New York Shoulder	Cottage Roll	Picnic	Sausage
				Cents per Pound				
1966—September	90.1	101.1	71.7	100.2	50.3	80.3	51.1	56.4
August	93.3	108.1	68.2	100.2	50.5	80.6	53.4	59.0
July	89.1	103.6	66.8	84.5	49.4	75.8	53.2	57.4
June	90.9	101.5	67.1	92.7	49.9	72.2	55.6	56.9
May	88.3	98.9	62.9	86.9	47.0	69.9	53.5	57.4
April	91.9	97.4	55.6	82.2	42.9	66.8	49.7	57.7
March	102.1	112.7	61.2	87.4	51.5	75.7	56.3	63.6
February	105.7	120.6	70.1	92.4	59.3	78.9	59.7	63.7
January	103.0	116.9	68.2	90.8	57.2	77.0	56.8	59.9
1965—December	96.1	114.5	68.7	97.9	56.6	78.2	58.3	59.2
November	92.5	102.3	68.0	92.8	49.9	73.8	51.3	55.7
October	93.2	99.2	68.7	94.0	48.8	68.9	49.3	53.9
September	92.8	101.2	63.2	94.0	44.0	65.2	46.1	55.0
August	92.2	102.7	62.2	95.0	43.5	65.8	46.6	55.9
July	88.9	103.4	62.6	90.1	43.3	64.8	44.9	54.5
June	85.0	99.8	62.4	83.6	42.6	63.2	44.7	53.4
May	77.7	90.3	52.4	72.6	36.1	57.2	39.4	48.9
April	77.1	89.2	49.5	68.1	35.5	57.1	39.9	48.2
March	77.8	89.9	50.9	68.5	36.7	57.6	40.4	48.0
February	77.8	88.9	53.6	67.4	37.8	56.6	40.1	47.1
January	77.2	87.5	51.1	65.6	35.2	54.6	37.6	46.3

[1] *Description of product*

Smoked ham, boneless, not fully cooked
Cooked Ham, whole (Boiled)
Loin, fresh, regular trim
Side bacon, 1 lb., flat pack
New York Shoulder, fresh, shankless
Smoked cottage roll not fully cooked
Smoked Picnic, shankless, not fully cooked
Sausage, pure pork, lb. package

SOURCE: Weekly Livestock and Meat Trade Report Canada Department of Agriculture.

TABLE IV

AVERAGE WHOLESALE PRICES (MONTHLY) TORONTO

	Pork Loin Reg. Trim	N-Y Shoulder Shankless	Bacon Rindless ½ lb. Pack	Hams Smoked Boneless	Sausage Pure Pork 1-lb. Pack
1965—January	51.1	35.2	65.6	73.2	46.3
February	53.6	37.8	67.4	75.8	47.1
March	50.9	36.7	68.5	77.0	48.0
April	49.4	35.5	68.1	76.0	48.2
May	52.4	36.0	72.6	77.2	48.9
June	62.4	42.6	83.6	87.0	53.4
July	62.6	43.3	90.0	90.4	54.5
August	62.2	43.5	95.0	90.6	55.9
September	63.2	44.0	94.0	88.6	55.0
October	68.6	48.9	94.0	86.4	53.9
November	68.0	49.9	92.8	88.8	55.7
December	68.7	56.6	97.9	101.0	59.2
Annual Average	59.4	42.5	83.5	84.8	52.2
1966—January	66.8	56.0	90.1	102.6	59.7
February	70.3	60.1	92.7	105.1	63.4
March	60.0	51.4	88.2	97.7	65.1
April	55.3	42.8	81.9	85.2	57.4
May	60.4	46.4	85.7	88.2	57.4
June	66.6	49.5	91.9	91.2	56.6
July	66.0	48.4	93.6	91.6	56.7
August	67.3	50.5	102.1	96.1	60.1
Average to Date	64.1	50.6	90.8	94.7	59.6

SOURCE: Livestock and Animal Products Statistics Dominion Bureau of Statistics.

TABLE V

AVERAGE RETAIL PRICES (MONTHLY) TORONTO

	Pork Boston Butt	Pork Chops	Sausage Pure Pork	Pork Bacon ½lb. Pack
1965—January	40.8	73.4	57.0	96.0
February	45.8	73.4	57.6	95.8
March	45.0	76.5	58.1	96.4
April	44.1	72.5	57.0	96.4
May	45.6	70.0	57.2	97.4
June	49.3	79.4	58.8	109.8
July	51.8	87.1	62.8	124.2
August	53.7	87.2	63.5	133.6
September	53.3	89.7	65.9	137.4
October	54.5	90.9	64.3	136.0
November	58.4	99.5	63.4	130.0
December	59.7	100.2	66.4	135.4
Average 1965	50.2	83.3	61.0	115.6
1966—January	63.7	97.5	70.4	141.8
February	63.1	99.5	72.0	149.2
March	67.2	101.0	71.5	150.4
April	59.8	89.6	70.8	139.6
May	52.2	86.1	68.4	132.6
June	56.2	93.2	69.3	138.0
July	56.5	93.3	68.4	140.6
August	55.1	94.7	65.8	154.2
September	57.9	96.3	67.7	154.6
Average to date 1966	59.0	94.6	69.4	144.6

SOURCE: Livestock and Animal Products Statistics, Dominion Bureau of Statistics.

TABLE VI

NATIONAL AVERAGE RETAIL PRICES (MONTHLY)

	Pork Chops	Pork Shoulder Butt	Pork Sausage Pure Pork	Pork Bacon ½lb. Pack	Pork Ham Boneless
1965—January	74.9	54.8	60.7	96.4	103.3
February	74.9	55.9	60.8	96.6	105.2
March	75.2	55.9	60.7	96.8	104.8
April	73.5	55.9	60.6	97.0	103.8
May	72.8	56.2	60.6	98.2	103.7
June	79.0	59.8	61.9	105.0	104.6
July	84.4	64.0	65.3	116.0	115.4
August	84.8	64.7	67.3	126.4	122.7
September	86.2	65.8	68.6	131.2	125.9
October	86.5	66.3	68.5	129.6	124.9
November	91.5	69.0	68.5	128.2	123.2
December	93.4	73.5	70.0	127.4	128.4
Annual Average	81.4	61.8	64.5	112.4	113.8
1966—January	94.9	78.8	73.8	134.4	139.6
February	97.1	78.6	75.6	139.6	144.6
March	97.1	81.3	77.5	139.6	147.1
April	87.3	72.8	76.5	127.2	141.4
May	83.4	65.9	74.0	125.2	124.6
June	89.4	68.2	74.7	128.6	137.1
July	89.9	70.3	74.4	131.8	134.5
August	90.7	70.2	74.1	138.0	137.3
September	91.8	73.0	75.0	142.8	139.8
Average to Date	91.3	73.2	75.1	134.4	138.4

SOURCE: Prices and Price Indexes, Dominion Bureau of Statistics.

First Session—Twenty-seventh Parliament

1966

PROCEEDINGS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

No. 16

TUESDAY, NOVEMBER 8, 1966

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. Ron Basford, M.P.

WITNESSES:

Swift Canadian Company Ltd.: Mr. P. L. Ayers, President; Mr. S. L. Medland, General Manager, Marketing Services Division; Mr. A. H. Beswick, General Processed Meats Manager; Mr. W. P. Christian, General Sales Manager; Mrs. Greta Elgis, Home Economist; Mr. R. E. Swan, General Beef, Lamb and Veal Manager.

Canada Packers Limited: Mr. W. F. McLean, President.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

25155—1

MEMBERS OF THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(PRICES)

For the Senate

Hon. David A. Croll, Chairman

the Honourable Senators

Carter,
Croll
Deschatelets,
Hastings,
Hollett,
Inman,
McDonald (*Moosomin*),
McGrand,
O'Leary (*Antigonish-Guysborough*),
Thorvaldson,
Urquhart,
Vaillancourt—(12).

For the House of Commons

Mr. Ron Basford, Joint Chairman

Members of the House of Commons

Allmand,
Andras,
Basford,
Cashin,
Choquette,
Clancy,
Code,
Crossman,
Duquet,
Gray,
Horner (*Acadia*),
Irvine,
Leblanc (*Laurier*),
Lefebvre,
MacInnes,
Mandziuk,
McCutcheon,
McLelland,
Olson,
Otto,
Ryan,
Scott (*Danforth*),
Smith,
Whelan—(24).

36 members
Quorum 7

SUPPLEMENTARY ORDERS OF REFERENCE

Extract from the Votes and Proceedings of the House of Commons, September 9, 1966:—

"Mr. Sharp, seconded by Miss LaMarsh, moved,—That the Joint Committee of the Senate and House of Commons appointed by this House on March 15, 1966, to enquire into and report upon the problems of consumer credit, be instructed to also enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months;

And that a Message be sent to the Senate to acquaint Their Honours thereof and to request the concurrence of that House thereto.

And the question being proposed;

Mr. Pickersgill, seconded by Mr. McIlraith, moved in amendment thereto,—That the motion be amended by striking out the words "by this House on March 15, 1966" where they appear in the second line thereof and by inserting in the motion as the second paragraph the following:

"That the Committee have leave to sit notwithstanding any adjournment of this House;".

And the question being put on the said amendment, it was agreed to.

After debate on the main motion as amended, it was agreed to."

Extract from the Votes and Proceedings of the House of Commons, October 7, 1966:—

By unanimous consent, Mr. Basford, seconded by Mr. Allmand, moved,—That the First and Second Reports of the Special Joint Committee on Consumer Credit and Cost of Living, presented to the House on Friday, April 1 and Thursday, October 6, 1966, be concurred in.

After debate thereon, the question being put on the said motion, it was agreed to.

Accordingly, the said Reports were concurred in and are as follows:

FIRST REPORT

Your Committee recommends that seven (7) of its Members constitute a quorum, provided that both Houses are represented.

SECOND REPORT

Your Committee recommends that the House of Commons section of the said Committee be granted leave to sit while the House is sitting.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Minutes of the Proceedings of the Senate, September 13, 1966:—

"The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Hugessen:

25155—1½

That the Senate do agree that the Joint Committee of the Senate and House of Commons appointed to enquire into and report upon the problems of consumer credit, be instructed also to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months; and

That a message be sent to the House of Commons to acquaint that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

TUESDAY, November 8th, 1966.

Pursuant to adjournment and notice the Special Joint Committee on Consumer Credit (Prices) met this day at 9.30 a.m.

Present: For the Senate: The Hon. Senators Carter, Croll (*Joint Chairman*), Hollett, Inman, McGrand and Thorvaldson.—6.

For the House of Commons: Messrs. Allmand, Basford (*Joint Chairman*), McCutcheon, MacInnis and Smith.—5.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C., Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

The following were heard:

Swift Canadian Company Limited:

Mr. P. L. Ayers, President.

Mr. S. L. Medland, General Manager,
Marketing Services Division.

Mr. A. H. Beswick, General Processed Meats Manager.

Mr. W. P. Christian, General Sales Manager.

Mrs. Greta Elgis, Home Economist.

Mr. R. E. Swan, General Beef, Lamb & Veal Manager.

At 1.00 p.m. the Committee adjourned.

At 3.00 p.m. the Committee resumed.

Present: For the Senate: The Hon. Senators Carter, Croll (*Joint Chairman*), Hollett, Inman, McGrand and Thorvaldson.—6.

For the House of Commons: Messrs. Basford (*Joint Chairman*), Code, Horner (*Acadia*), MacInnis, Scott (*Danforth*) and Smith.—6.

In attendance: Dr. R. Warren James, Special Assistant; Mr. John J. Urie, Q.C, Counsel; Mr. Marcel Joyal, Q.C., Associate Counsel; Mr. Jacques L'Heureux, C.A., Accountant.

The following was heard:

Canada Packers Limited:

Mr. W. F. McLean, President.

At 6.00 p.m. the Committee adjourned until Thursday next, November 10 at 9.30 a.m.

Attest.

John A. Hinds,
Assistant Chief,
Senate Committees Branch.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, November 8, 1966.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Senator David A. Croll and Mr. Ron Basford, M.P., Co-Chairmen.

Co-Chairman Mr. BASFORD: Honourable senators and members of the House of Commons, the committee will please come to order.

This morning we have with us the Swift Canadian Co., Limited, represented, on my immediate left by Mr. P. L. Ayers, President, and Mr. S. L. Medland, General Manager, Marketing Services Division. With them, and behind, is Mr. R. E. Swan, General Beef, Lamb and Veal Manager; Mr. A. H. Beswick, General Processed Meats Manager; Mr. W. P. Christian, General Sales Manager; and Mrs. Greta Elgis, known as "Martha Logan," Home Economist.

It is up to you, Mr. Ayers.

Mr. P. L. Ayers, President of Swift Canadian Co., Limited: Honourable Senator Croll and Mr. Basford, honourable senators and members of the House of Commons, ladies and gentlemen: I am Paul L. Ayers, President of Swift Canadian Co., Limited and I am here at your request to furnish information about our company which pertains to the inquiry which you are conducting into the trends in the cost of living in Canada and factors which may have contributed to the changes in the cost of living in Canada in recent months.

I want to assure you that we are here in a spirit of co-operation and that we are prepared to assist your committee in its endeavours in every practicable way.

Swift Canadian Co., Limited is a large company which does business in all of the market areas from coast to coast in Canada.

Our various plants and units operate under general policies and directions from my office and of necessity have considerable local autonomy.

We have filed a brief with the committee which sets forth in a concise manner corporate information, certain economic aspects of the meat packing business, marketing philosophy, particulars of livestock buying, information which pertains to the various wholesale cuts of meat and other information regarding certain products and activities of this company.

At this time I would like your permission to show a 26-minute film on the marketing of livestock and meat in Canada. We feel that the committee will find it very useful in understanding the meat packing business.

After the film has been shown, Mr. S. L. Medland will read this company's brief.

Co-Chairman Mr. BASFORD: Thank you, Mr. Ayers.

(The film "*The Story of Meat in Canada*" was then shown to the committee.)

Mr. S. L. Medland, General Manager, Marketing Services Division, Swift Canadian Co., Limited: Swift Canadian Co., Limited was incorporated by Letter Patent under the laws of Canada on December 13, 1902, under the name J. Y. Griffin and Company Limited. On January 2, 1911, the name of the company was changed from J. Y. Griffin and Company Limited to Swift Canadian Co., Limited. The company is a wholly owned subsidiary of Swift & Company, Chicago, Illinois. Swift Canadian Co., Limited does not carry on business in Canada through subsidiaries and has no voting interest in any other company which is actively engaged in business, although it does operate its meat packing plant at Calgary, Alberta, under a division or style name, Union Packing Company, a poultry processing plant at Burlington, Ontario, under the name Niagara Finest Poultry and a small sales unit in Vancouver under the name, Lower Mainland Hotel and Restaurant Supply Co.

The company operates meat packing plants and dairy and poultry plants, and has a sales organization designed to serve all Canadian market areas. In addition, the company has chick and turkey poult hatcheries, adhesive plants, feed mills, an agricultural chemical plant and a chemicals for industry plant. The company is participating in the development of a potash mine and plant, which is located near Allan, Saskatchewan. The location of each of the foregoing units is shown in Appendix A.

Appendix B sets forth the return on assets employed after tax and the return per dollar sales after tax of Swift Canadian Co., Limited for the fiscal years 1960-1965 inclusive. The fiscal year of the company ends on the Saturday nearest the last day of October in each year.

In view of the fact that this committee has been appointed to enquire into and report upon the trends in the cost of living in Canada and factors which may have contributed to changes in the cost of living in Canada in recent months, more particularly food, the remainder of this brief will deal primarily with the food operations of this company.

SOME ECONOMIC ASPECTS OF THE MEAT PACKING BUSINESS:

It is thought that it will be useful to the committee in understanding the meat packing business if some of its economic characteristics, which may be unique, are considered at this time. The first noteworthy point is that the meat packer has no control over the supply of livestock, the major raw material. The total supply of livestock is determined by the production and marketing decisions of thousands of independent farmers and ranchers. In the short run, the supply varies with weather, holidays, or whether a farmer finds it convenient to market livestock on a given day. The Canadian meat packing industry has long considered itself to have an obligation to buy and process all the livestock that farmers and ranchers bring to market.

The next important economic characteristic is common to all levels of livestock-meat industry in that it deals with a very perishable product. The problem begins with the livestock producer. A hog or steer, when ready, must be marketed. If not, there will be a decline in feed efficiency and possibly a decline in grade, quality or value due to overfinish. Fresh meat must be moved carefully and quickly through all marketing levels so that it can be delivered to the consumer at the peak of its bloom and flavour.

In order to bring demand and variable supplies into balance with each other, prices of both livestock and meat must be flexible. When prices fall people are willing to buy more, and as prices rise, people are willing to buy less. As a result, when supplies of livestock and meat are heavy, prices fall, and the whole supply is consumed. When supplies are scarce, prices rise and consumers cut back their consumption, thus keeping supply and demand in balance.

A final economic characteristic of the meat packing business which we would like to emphasize has to do with cost finding. Most manufacturers can tell

the cost to produce a particular item—for example a stove, or a refrigerator. The cost of the raw materials, the labour, the overhead, the appropriate share of other fixed expenses, etc, are added together to determine the cost per unit. That is possible because they assemble the products they produce, either as individual units or on an assembly line. The meat packing business is different in that the meat packer operates a disassembly line. The farmer "puts the livestock together" and the meat packer takes it apart. This gives rise to a joint product relationship.

When pork loins, hams, bellies, etc, are produced, there is no satisfactory method, in our opinion, to determine the actual cost of the individual cut. When a hog is cut up, it yields two hams, two loins, two bellies and two shoulders, regardless of the demand for individual cuts.

Instead of trying to determine the cost of each individual cut, our company does a cutting test from which it calculates what can be realized from the entire animal. The company knows from experience and tests how many pounds of each cut hogs will yield. The yield of each cut is multiplied by its going market price and any credits from the sale of by-products are added to determine the total revenue from the animal. The cost of buying, processing and delivering is then deducted to determine a net figure or "cut out". This is used as a guide to determine the bidding price for hogs. A similar but less complicated procedure is followed to determine the bidding price for cattle.

MARKETING PHILOSOPHY

In our opinion, the single most important fact regarding the food industry in Canada today is that the consumer does not purchase a product only for the nutritional value of the contents of the package, but that she selects and buys a bundle consisting of product and related services. These services include such things as transportation, storage, display, packaging, advertising, availability, convenience, confidence, flavour, prestige and eye appeal.

Our marketing philosophy is simple. It is to identify consumer wants, and organize our corporate resources to fill them—at a profit. The meat packer's immediate customer is the retailer, however, his demand is derived from that of the consumer. To be successful, our products and services must fill the needs of both the retailer and the consumer.

Consumers communicate their likes and dislikes through a number of channels. The most important of these is their action in the market. Every day is election day for the meat packer. Each time the consumer shops she casts her vote in favour fo a particular meat packer's product by purchasing it, or against it by rejecting it and leaving it on the shelf or in the meat case. We hope that there will be time during the question period for you to take advantage of the opportunity to ask our Home Economist, Martha Logan, to tell you some of the things Swift does to be sure it provides just the right mix of product and services to satisfy the consumer's wants and win her vote.

LIVESTOCK BUYING

Livestock, is, of course, the meat packer's most important raw material, and major cost item. It has been estimated that approximately 79 cents out of the meat packer's sales dollar is paid for the purchase of livestock. We will discuss the various procedures and buying methods used by this company in the purchase of livestock.

CATTLE

Each meat packing plant has a beef department manager. His first responsibility is to know the market for beef. Taking account of current sales and trends, customer's requirements in the plant territory, what is happening on the sales

routes and information from our General Beef Department in Toronto he continually revises his estimates of requirements and expected prices.

The next step is to translate these estimates into terms of live cattle and proceed with the buying. Buying instructions are given to the company livestock buyer by the Beef Manager in terms of beef in the cooler. For example, the Beef Manager may say "I want 100 red 6-650 steers at 48 cents". This means that the buyer is to purchase 100 steers that, when slaughtered, will be graded by the Government grader as Canada Choice, weigh in the range of 600-650 lbs. and when all expenses for buying and slaughtering, and revenue from sale of by-product are taken into account, will cost the company 48 cents per pound of beef.

As you can imagine, livestock buyers must possess great skill. The grade of beef is based on age, conformation, finish and quality. Conformation, finish and quality are not easy to estimate in the live animal. More difficult still, is estimation of the percentage yield of beef. Cattle may yield as little as 42 per cent or as much as 65 per cent. A small error in estimation here can cause a wide variation in cost. For example, a 1000 lb. steer costing 27 cents, yielding 57 per cent, would produce 570 lbs. of beef at a cost of 47.37 cents per pound. However, if the same steer had yielded only 56 per cent or 560 lbs. the cost would be 48.21 cents, per pound, which is a difference of 84 cents per hundredweight.

From time to time there has been some criticism to the effect that livestock buyers wrongly encourage over finishing of cattle by placing too much emphasis on yield, thus not properly reflecting the demand for leaner beef. In Swift Canadian Co., Limited we have excellent communication between our buyers and beef and sales managers and feel we have this problem well in hand. It is in our own interest to do a good job in this area because over fat carcasses require expensive trimming and retailers demand a discount.

The mechanics of cattle buying are fairly simple. You saw sale by auction at the Ontario Stockyards in the film. This is the most common method of selling. Others include direct selling by the farmer or feeder on his own premises or at the plant or buying stations, through dealers located at country points, local auction rings or co-operatives.

HOGS

Hogs are bought in Ontario, New Brunswick and Nova Scotia through marketing boards, and in Manitoba through a marketing commission. In the film you saw the marketing process in Ontario. In Prince Edward Island, Saskatchewan, Alberta and British Columbia hogs are sold direct to meat packing plants or through buying stations, or by auction at major markets.

As a result of federal legislation, hogs are bought warm dressed weight, head and feet on, leaf lard and kidney in, and paid for on the basis of Government grade.

As indicated above, the amount which can be bid for hogs is based on the cut out, which shows the number of dollars which can be realized from the sale of all the pieces or cuts and by-products.

LAMBS & CALVES

Lambs and calves are processed by the company only at its Moncton, St. Boniface and Edmonton plants. They are bought in a manner similar to cattle, except that lambs are often bought from producers co-operatives in the Maritimes on sealed bid. The method of determining what the company can bid for lambs and calves is similar to that for cattle.

PLANT OPERATIONS

Meat packing operations are not described in this brief. If any members of the committee would care to visit Swift's plants to see these operations, they would be nost welcome.

Most fresh beef is sold in carcass form.

A very small percentage of pork is sold in carcass form. It is sold either as fresh cuts of pork or is further processed by curing, smoking, cooking, etc, and sold as hams, bacon, sliced cooked cold meats, etc.

PORK CUTS

Would you please refer to page 3 of the booklet "Cuts of Meat".

(*Booklet entitled "Cuts of Meat" tabled.*)

At the centre of the page you will see that a warm hog carcass of 155 lbs. yields approximately 125 lbs. of fresh and cured pork products, 11 lbs. of miscellaneous items and by-products, 15 lbs. of fat and lard, and loses about 4 lbs. of moisture during cooling.

Please turn to page 5. At the centre of the page we see the wholesale cuts. The first cut is the ham. There is one on each side and together they make up about 19 per cent of the pork produced by a hog. Next is the loin. The two loins make up about 14 of each 100 lbs. of pork carcass. From the loin comes centre cut pork chops, probably the nation's favourite fresh pork cut. But only 5 per cent of a side of pork is centre cut pork chops. Besides centre cut pork chops the loin can also produce the variety of other retail cuts you see on the left, as well as back bacon.

The side or belly is trimmed, cured and smoked to produce bacon. Few 155 lbs. carcasses produce more than a total of 19 lbs. of side bacon.

Also shown are the spareribs—about $4\frac{1}{2}$ lbs. per hog.

The two shoulders from a 155 lb. hog together weight about 22 lbs. They can be cut in a variety of ways. Here a boston butt and a picnic are shown. Each of these cuts can be sold fresh, or cured and smoked, bone in or boneless.

BEEF CUTS

Please turn to page 8 where you will see an outline of a side of beef. As we have indicated, most beef is sold by meat packers in carcass form or is separated into front quarters and hind quarters by cutting the carcass between the eleventh and twelfth rib as indicated in the diagram. Additional curring is done at the meat packing plant for the hotel restaurant and institutional trade and for the preparation of boneless beef.

Wholesale and retail cuts of beef are shown on the next page of the booklet.

PROTEN BEEF

ProTen is a registered trade mark which is owned by Swift Canadian Co., Limited and which is used in association with beef which has been pretendered under the company's patented process. The process is available for licence and is currently being used by two other meat packers in Canada.

PROCESSED MEATS

Another major area of the meat packing business is the processed meats operation. The processed meats division is responsible for the production of bacon, hams, domestic sausage, (which includes frankfurters, bologna, sliced cooked cold meats, etc.) and all other meat items which may be cooked, cured or smoked.

I would like to depart for the moment from the body of the brief and return to it later, because the company feels that you should have some explanation of the appendix, which is a little complicated in spots. Would you please turn to the appendix and then I will come back to the body of the brief afterwards.

Appendix "A" shows the location and type of each Swift Canadian Co., Limited unit in Canada. You will notice that we have meat packing plants, sales units, dairy and poultry plants, a feed mill, hatcheries, a potash mine, grocery sales units, an adhesive plant, a chemicals for industry plant and an agricultural chemical plant.

Would you please turn to Appendix "B". Appendix "B" sets forth the financial information on Swift Canadian Co., Limited, showing the years 1960 to 1965 inclusive. We show net sales as 100 per cent at the top of each column, and then each of the other items is shown as a percentage of that total, showing livestock and raw materials, wages, salaries and employee benefits, freight on sales, supplies, other expenses, income and other taxes, and, finally, profit, as a percentage of net sales.

One step further down in the same table we show return on assets employed as a percentage for each year 1960 to 1965 inclusive, and, similarly, the number of employees for each of those years.

Further down in the table we have the heading Toronto Meat Packing Plant-Base Labour Rates. We show those figures for each year 1960 to 1968 inclusive for each of male and female, and we have indexed each of those series.

Would you please turn to Appendix "B-1". Here we set forth our advertising and promotion expenditures for food products only, in the years 1962 to 1965 inclusive, showing the advertising cost per hundredweight, the promotion cost per hundredweight, the advertising and promotion costs per hundredweight combined, the advertising cost per dollar sales, the promotion cost per dollar sales, and the advertising and promotion costs per dollar sales combined.

Would you please turn to Appendix "C". Appendix "C" consists of three pages. It refers to Toronto Choice Steers in the years 1965-66. The first column refers to week ending; the date shown is the date on the end of each of those weeks, as specified. The second column C.D.A. Live Choice Steers is the Department of Agriculture reported price on choice steers at Toronto as reported in the Weekly Livestock and Trade Report known in the industry as the Blue Book.

The second column shows Swift's average selling price of choice carcasses delivered store door to chain stores in Toronto. The third, fourth and fifth columns again go back to the Blue Book, the Canada Department of Agriculture reported Toronto prices on choice beef carcasses, showing the low and the high and the average for the week.

Would you please turn to Appendix "D-1." This appendix consists of two pages. It shows Swift Fresh Pork Selling Prices Delivered Chain Stores at Toronto, for the period, week ending, November 7, 1964, to October 29, 1966. Column one again specifies the dates by week ending. Column two shows the price of fresh loins in cents per pound. Column three shows the price of New York shoulders in cents per pound, and the other three columns are a continuation of the table, and I have been asked to mention that you read these two pages as if one were held above the other. The columns run down onto the second page.

Would you please turn to Appendix "E." Appendix "E" consists of three pages. It shows the relation of hog prices to certain wholesale pork cut prices and processed pork selling prices for the period November 1964 to October 1966, Toronto area, store door, chains.

Again the first column shows the week ending. The second column refers to the Ontario Hog Producers Marketing Board Weekly Grade A Average Reported Price. Column three shows Green Bellies 8/12. This means fresh or frozen unprocessed bellies which weigh within the weight range of 8 to 12 pounds. Column four refers to Swift's Premium Sliced Bacon and shows Swift's selling price in cents per pound. Column five shows Swift's selling price in cents per pound for green hams, that is, unprocessed fresh or frozen hams. The "16 DN" refers to the weight average of those hams as being 16 pounds each and down.

The next column, where it says "F.C.PT. SKND Hams", means fully cooked, partly skinned hams, and it shows Swift's selling price in cents per pound.

The next column is green picnics hockless. The green again refers to unprocessed fresh or frozen picnics hockless. The hocks have been removed, in other words.

The next column is smoked hockless picnics. The next column after that is green Boston butts, and is again referring to fresh or frozen Boston butts.

The next column is sweet pickled "Cryovac" cottage rolls.

Now, returning to the body of the brief on page 10, we sincerely hope that the contribution of Swift Canadian Co., Limited will assist the committee in achieving an understanding of the meat packing industry and that the data provided will be useful in the enquiry and report upon the trends in the cost of living in Canada.

Now, Mr. Chairman, in view of the great interest in bacon prices that has been evidenced recently, the company wishes to make a supplementary statement on bacon, and, if we might have your permission to forego questioning at this time, we would like to have Mr. Beswick make this supplementary statement on bacon.

Co-Chairman Mr. BASFORD: Go ahead, Mr. Beswick.

Mr. A. H. Beswick, General Processed Meats Manager, Swift Canadian Co., Limited, Toronto: Thank you, Mr. Chairman, I am Alan H. Beswick, General Processed Meats Manager, Swift Canadian Co., Limited, Toronto. Swift Canadian Co., Limited estimates the company's average profit per pound of sliced bacon before taxes during the first 11 months of our fiscal year of 1966, at .62 cents per pound, or approximately 6/10 of one cent per pound.

This compares to an estimated .99 cents per pound of sliced bacon before taxes during the fiscal year of 1965, or approximately one cent per pound. Separate monthly results in 1966 have ranged from a loss of several cents per pound to a profit high of 4.9 cents per pound.

Considerable concern has been expressed over the apparent lack of correlation between selling prices of sliced bacon and hog prices. It is a recognized fact in the meat industry that hogs, bellies, and sliced bacon are three different commodities and products, each subject to different price pressures.

In a broad sense, the price paid for hogs is a reflection of the realization values of all the parts of the hog. Each of these parts is subject to different supply and demand influences and, therefore, price conditions. The price of hogs is also affected by the fact, as mentioned in our brief, that the packing industry will clear these hogs from the market at some price.

The price of hogs is also more closely related to the demand for those cuts which are generally sold in the fresh form—specifically pork loins and shoulders.

The factors influencing the belly market are much different and a partial list would include:

1. The price level of the belly market in the United States.
2. The price level of the belly market in Canada.
3. The supply of fresh grun bellies from the current hog slaughter in Canada.
4. Inventory of frozen bellies in the United States.
5. Inventory of frozen bellies in Canada.
6. The current demand for sliced bacon and the available capacity to meet this demand.
7. Anticipated belly markets in the short-run future.

All of these supply and demand factors apply specifically to the belly cut and not the whole hog carcass as such.

In the two-year period shown in Exhibit "E" of our company's brief, bellies have been within two cents per pound of the hog market and as far away as almost 24 cents per pound over the hog market.

In November 1964 bellies were within two cents of the hog market. It is our opinion that this close price relationship was the result of fresh bellies being produced from the then current cut in excess of the demand for bellies.

In actual fact the combined excess fresh production in the U.S.A. and Canada in November 1964 was 21.8 million pounds. In other words, 21.8 million pounds surplus fresh bellies were produced in November 1964 and went into U.S. and Canadian freezers.

Moving to August 1966, the spread between bellies and hog prices was at its highest—being almost 24 cents per pound. It is our opinion that this price condition was the result of the demand for bellies being considerably in excess of the available supply of fresh bellies being produced from the then current hog slaughter in a period of low freezer inventories of bellies in the U.S.A. and Canada. In other words, the conditions of supply and demand in August 1966 were the complete reversal of the conditions of November 1964.

In actual fact all the fresh bellies in Canada and the U.S. in August were put into consumption plus a total of 14.4 million pounds of bellies out of freezer storage in both countries. In other words, there were simply not enough bellies on the hogs marketed during August to satisfy the demand for bellies, making it necessary to draw on already low freezer inventories.

It is apparent, therefore, that bellies and hogs are subject to different demand and supply conditions and do not move in direct relation to each other.

Going still further, sliced bacon is subject to a still different series of supply and demand factors. A partial list of these would be:

1. Inelasticity of demand for sliced bacon with sweeping price variations brought about by a varying supply.
2. Capacity to produce sliced bacon.
3. Cost to produce sliced bacon.
4. Market situation on sliced bacon as expressed by a buyer's acceptance or non-acceptance of the price offered.

In conclusion, we contend that it is erroneous to attempt to make comparisons between price schedules of any product which is only a portion of the total purchased livestock raw material and which reaches Mrs. Consumer in such a dramatically different form as in the case of sliced bacon.

Co-Chairman Mr. BASFORD: We will now start the question period. Mr. Joyal.

Mr. JOYAL: Mr. Ayers, may I refer you to Appendix "B". For the percentage figures given in this appendix, would you provide the committee with actual dollar figures?

Mr. AYERS: I do not have those figures with me.

Mr. JOYAL: Could you file them?

Mr. AYERS: Yes, I will.

Mr. JOYAL: That is for Appendix "B", and this will cover the period from 1960 to 1965?

Mr. AYERS: The same period of time.

Mr. JOYAL: Now I take it that you have—and this will include not only the profit and loss figures of these years, but also the balance sheets?

Mr. AYERS: Yes.

Mr. JOYAL: Would you also be able to provide an Appendix "B-1" showing a breakdown in dollar totals of your advertising cost promotion?

Mr. AYERS: I would prefer not to do that, but if you request it—

Mr. JOYAL: We have obtained this information from your competitors, so I think it would be only fair.

Mr. AYERS: We do not publish these, but we are prepared to co-operate.

Mr. JOYAL: Now in Appendix "B" are the figures disclosed there inclusive of all your sales from all operations?

Mr. AYERS: This refers to sale of food products only.

Mr. JOYAL: It does not include your potash mine?

Mr. AYERS: No.

Mr. JOYAL: Does it include chemicals or feed?

Mr. AYERS: No, just food products only. You are talking about Appendix "B", and that includes our entire sales figure. Now our potash mine figure will not be in there because we are not operating. We are in process of building the mine, but it includes everything we do in the company.

Mr. JOYAL: In this production you speak of, the total sales figure is directly related to either products or by-products from meat packing, dairy and food?

Mr. AYERS: That's right.

Senator THORVALDSON: May I ask at this time the percentage of volume of total products other than the meat. It might be helpful in this line of questioning.

Mr. AYERS: Well, I haven't got that figure at the tip of my tongue, but I could perhaps estimate what the volume of meat products would be—in the neighbourhood of 75 per cent. I would not want to say that that is exact, but it is in that area.

Mr. JOYAL: Now the next question is with regard to your selling expenses. It is difficult to find out what would be the percentage of selling expenses from Appendix "B". But when your salesmen sell to chain stores, do you have any policy with regard to volume discounts?

Mr. AYERS: We have volume discounts with chain stores.

Mr. JOYAL: Do you have any policies with regards display space?

Mr. AYERS: Yes.

Mr. JOYAL: Do you ever pay for display space?

Mr. AYERS: Yes, we do; end aisle displays fit into that kind.

Mr. JOYAL: On your display space, is there any contractual arrangement with your retailer for this particular purpose?

Mr. AYERS: I have Mr. Christian with me this morning. Would you mind if I call on Mr. Christian? He is our General Sales Manager, and I would like to have him participate in this area.

Mr. JOYAL: Yes, by all means.

Mr. AYERS: Would you rephrase the question, please, for Mr, Christian?

Mr. JOYAL: What have you paid during the last fiscal period for display space in retail stores?

Mr. W. P. Christian, General Sales Manager, Swift Canadian Co., Limited: I do not have a record of any individual or total payments of this nature. We do participate in what we term a twice-a-year plan which is available to anyone wishing to participate across Canada. That is on a basis whereby we have a scheduled arrangement whereby, if certain volume figures are attained and certain other services are performed, we will participate in the promotion.

Mr. JOYAL: Would this include co-operative advertising?

Mr. CHRISTIAN: Yes, it would.

Mr. JOYAL: Do you have figures on that?

Mr. CHRISTIAN: No, I do not have them with me. It is all included in this figure we show in the appendix.

Mr. JOYAL: How is this paid? Is this paid by you in cash to the retailer?

Mr. CHRISTIAN: Yes—and by cheque.

Mr. JOYAL: In other words, your invoice to the chain store would be the price you are offering your particular meat at?

Mr. CHRISTIAN: Yes, that is correct.

Mr. JOYAL: And any other arrangements with regards discounts or display space would be reflected in another transaction?

Mr. CHRISTIAN: Yes, but I would like to make one point clear. You used the term "chain store." This plan is available to anybody in the retail field.

Mr. JOYAL: Is there a form of contract you have with these retailers for this purpose?

Mr. CHRISTIAN: Yes, it is a contract of a type; it is not a signed contract as such.

Mr. JOYAL: Could you provide us with a proforma contract?

Mr. CHRISTIAN: Yes. I do not have one with me, but I can certainly provide one for you.

Mr. JOYAL: These negotiations with the retailer, are they conducted by your salesmen on the road?

Mr. CHRISTIAN: Negotiations take place at all levels, really, depending on the nature and type of the product basically. The regular route salesman does do some negotiating on the road, but only in so far as quantities and quantity discounts are concerned. They have a firm price list and are not allowed to deviate from the price list except as quantities will allow.

Mr. JOYAL: If you have no breakdown figures for all these many arrangements you have with retailers, would you have in dollars the cost in your last fiscal period to you for these promotional endeavours?

Mr. CHRISTIAN: This is Appendix "B-1", for 1962, 1963, 1964 and 1965, indicating the total per hundredweight.

Mr. JOYAL: Yes, per hundredweight.

Mr. CHRISTIAN: Yes.

Mr. JOYAL: But because we have not very much information in dollars under Appendix "B", we cannot get a true picture under Appendix "B-1".

Mr. AYERS: When we file our information on Appendix "B" that will give you the picture on Appendix "B-1".

Mr. JOYAL: I see.

Mr. AYERS: It will tie in with that appendix.

Mr. JOYAL: Could those figures be broken down in terms of what we would call national advertising, which I understand you engage in, and figures for other promotions?

Mr. CHRISTIAN: Again, Appendix "B-1" will do that for you.

Mr. JOYAL: Between the advertising costs per hundredweight and the promotional costs per hundredweight?

Mr. CHRISTIAN: Yes, right.

Mr. JOYAL: When your salesmen are dealing with retailers with regards floor space, and so on, what happens if the retailer refuses to co-operate?

Mr. CHRISTIAN: There is a little misunderstanding in the area of buying floor space. This is not really done as a specific thing. What generally transpires is that we solicit a store-wide sale of a given account or a given chain, and we get together with the people involved and sit at a table or across a counter and

determine what we would like done for that particular sale. We do not specifically buy footage of display space.

Mr. JOYAL: No, I appreciate that. But are you not at the mercy, sometimes, of the retailer in those circumstances?

Mr. CHRISTIAN: I think rather we are the agressor, sir. We are looking for more and more help from all retailers to move more of our product into retail transactions.

Mr. JOYAL: Which party to the transaction is going finally to determine what price is going to be paid, or what discount you are going to allow, or what kick-backs are going to be given?

Mr. CHRISTIAN: To answer the last part of your question first, the "kick-backs," as you call them, are in direct relation to the pre-printed program we have available, so there is no negotiation on this.

Mr. JOYAL: And it is part of the proforma contract you are going to file with us?

Mr. CHRISTIAN: Right.

Mr. JOYAL: You answered one part of my question. What about the others?

Mr. CHRISTIAN: I have lost the others. I suppose I am under a little pressure here.

Mr. JOYAL: The question was, I think, based on when you are negotiating with the retailer, as to whether this contract—I suppose, now you have referred to it—refers to volume discounts, refers to display space and would refer even to co-operative advertising. Is it a package deal or are they separate?

Mr. CHRISTIAN: It is a package deal.

Mr. JOYAL: And it includes all of the promotional elements in trying to sell your product?

Mr. CHRISTIAN: Yes.

Mr. JOYAL: And will be reflected in that contract?

Mr. CHRISTIAN: Reflected in a general way, we do not detail it exactly.

Mr. JOYAL: If the retailer does not like your form of contract, is your salesman authorized to amend it in the retailer's favour?

Mr. CHRISTIAN: No, he does not have this prerogative.

Mr. JOYAL: How much percentage of your sales—let us say in the 75 per cent of your products which are meat products—how much of this is export business?

Mr. CHRISTIAN: I do not know that.

Mr. AYERS: It would be a very small percentage. We do not have that percentage with us, but it would be very small on the meat product end.

Mr. JOYAL: Do you export anything to the United States in terms of, say, bacon?

Mr. AYERS: We export hams, heavy hams usually not used in Canada, and that market is primarily in New York, so the bulk of heavy hams produced in Canada are exported to New York.

Mr. JOYAL: What about bacon?

Mr. AYERS: A very small percentage of bellies move on to the west coast from Canada, but a negligible amount.

Mr. JOYAL: Referring to what Mr. Beswick said in his statement, would the export of bacon, for example, to the United States sort of make even more difficult the problem of the supply of bacon for Canadian consumption? Mr. Beswick perhaps could answer that.

Mr. BESWICK: We made no reference to the export of bacon in our presentation and, generally speaking, the Canadian-U.S. belly relationship is one

where Canada is on the import basis rather than export. The reference Mr. Ayers made to export of bacon is in a very small proportion to the United States out of western Canada. And how much is involved in freight and movement from here to there and there to here, the net proportion would be small to the United States.

Mr. JOYAL: Does your parent company in the United States engage in advertising of your particular brands of meats and prepared foods?

Mr. AYERS: Yes.

Mr. JOYAL: Do they advertise here in Canada—and this would include, of course, advertising expense which might not be found in Appendix "B-1"?

Mr. AYERS: Correct. They advertise in Canada because magazines flow over to Canada, television programs flow into Canada; but they do not advertise as a corporation from the United States in Canada, as such.

Mr. JOYAL: But they do try to create in Canada the image of Swift?

Mr. AYERS: No, that is our job.

Mr. JOYAL: That is your job?

Mr. AYERS: Yes.

Mr. JOYAL: In other words, you run your own advertising?

Mr. AYERS: That is right.

Mr. JOYAL: And it is directed to the Canadian market—

Mr. AYERS: Yes.

Mr. JOYAL: —in Canadian periodicals, newspapers, et cetera?

Mr. AYERS: That is right.

Mr. JOYAL: Do you realize how valuable would be the spill-over of American advertising of Swift?

Mr. AYERS: No, we never have. We just take that as added help.

Mr. JOYAL: Now, Mr. Ayers, I have one final question. Would you give us your opinion as to why there is this trend of increase in the prices of consumer products and in food commodities, and especially over the last fifteen months. We have heard from others—and I am sure you are familiar with all the evidence that has been presented to this committee—that there have been no fairly stable profit figures. Most of the retailers, wholesalers and processors who have appeared before this committee have not shown any stable profit figures, and yet the prices have been going up at tremendous rates. You are a man who has been in this business for a long time, and perhaps you have your own opinion.

Mr. AYERS: The cost of living generally is going up in every area and not only in food. In whatever area you want to look at you will find that the cost of living is rising, and certainly one factor is the cost of labour. That is one factor.

Mr. JOYAL: But not as far as you are concerned.

Mr. AYERS: Yes, our labour rates are continually going up.

Mr. JOYAL: They have gone up from a figure of 11.9 per cent of sales to 12.7 per cent of sales, but we are now talking about an increase in the price of food of about 18 per cent.

Mr. AYERS: From the bottom of Appendix "B" you will get an idea of how fast labour rates have advanced. This is a direct cost in the handling of our products.

Mr. JOYAL: But, as a percentage of sales they have only gone up from 11.9 to 12.7.

Co-Chairman Mr. BASFORD: Excuse me, Mr. Joyal, they have gone down.

Mr. JOYAL: They have gone down; I am sorry.

Mr. AYERS: That figure there will vary as a percentage of the increase in our sales. I think you will see that, when we publish this figure you have asked for. Overall, everything, in my mind, is on the way up because demand is exceeding supply in many instances. Everybody is working, and there is plenty of money in the country. The economy is buoyant, and this has caused sharp increases in the cost of living all the way across the board.

Mr. JOYAL: It is not just the cost of labour which is involved in delivering the food to the shelves that has caused the price of food to go up so much? It is because people have more money to spend—

Mr. AYERS: That is just part of it. You have the cost of labour, the cost of supplies, the cost of practically everything you cant put your finger on is on the way up. This, in turn, increases the cost of food, or of any other product. The demand for products today, as you know, is real good, in respect of practically all products across this country of ours.

Mr. JOYAL: But the information given to us by DBS at previous hearings indicates a growing spread between what would be the general rise in the consumer price index across the country and the rise in the index in respect of food. We are talking of food now. I am just wondering if you have any explanation as to why there should be this growing spread between the rise in the price of commodities generally and the rise in the price of food. Why has there been this greater rise in the price of food?

Mr. AYERS: That is a pretty hard question to answer sitting here, because there are so many factors involved in this area.

Mr. JOYAL: In other words, you do not know?

Mr. AYERS: Not specifically why this is happening at this particular time, and in this particular way.

Mr. ALLMAND: Mr. Ayers, does your company own any farms or ranches?

Mr. AYERS: We do not own any farms or ranches.

Mr. ALLMAND: Do you have agreements with any farms or ranches to supply you cattle or hogs over a long period.

Mr. AYERS: No, we do not.

Mr. ALLMAND: So, when you buy, you buy on the open market.

Mr. AYERS: Yes.

Mr. ALLMAND: You buy your hogs or cattle from week to week, or from month to month?

Mr. AYERS: We buy on the open market generally across Canada. We do have a few cattle on feed in western Canada, which we started just a couple of weeks ago. It is just a handful in respect of which we have farmers custom feed for us. We own the cattle and they are custom feeding the cattle. We also have an arrangement down in Prince Edward Island whereby we put weaner pigs—I presume you are talking about cattle and hogs?

Mr. ALLMAND: Yes.

Mr. AYERS: We put these weaner pigs out on these farms, and we supply the weaner pigs, and the farmer feeds those weaner pigs. When they are ready we get the pigs back and we pay him for the cost of feeding them and the cost of carrying them.

Mr. ALLMAND: On page 2 of your brief you say:

> The first noteworthy point is that the meat packer has no control over the supply of livestock, the major material.

Mr. AYERS: We really do not.

Mr. ALLMAND: It seems to me that a person in business like yourself would try to effect some control over supply. I am wondering if you have taken any steps towards trying to control supply more than you have?

Mr. AYERS: No, we have not.

Mr. ALLMAND: Have you ever considered this?

Mr. AYERS: No, sir.

Mrs. MACINNIS: Could I ask a supplementary question, Mr. Chairman?

Co-Chairman Mr. BASFORD: Yes.

Mrs. MACINNIS: That has been done in connection with chick and turkey poult hatcheries. If you have done it in that connection why have you not done it in respect to meat?

Mr. AYERS: Because up to this time we have felt it is not necessary.

Mrs. MACINNIS: Would it ever be considered desirable, as it is with the chick and turkey poult hatcheries, to have the company own cattle on the ranches as well?

Mr. AYERS: We have not given that one bit of consideration.

Mr. ALLMAND: Is that because—

Mr. AYERS: We feel that there is a sufficient supply coming along to run our business in the way we are operating it. There is one further point; in Ontario, for example, that sort of thing is prohibited by the Ontario Hog Marketing Board, anyway.

Mr. ALLMAND: The fact that there is a prohibition against the packer owning the farms—

Mr. AYERS: If you own the hogs on a farm you cannot have those hogs delivered to you direct. They have got to go through the Ontario Marketing Board, and sold on the teletype to anyone who wants to buy them.

Mr. ALLMAND: You say that your prices are affected by supply and demand, which is a basic economic law, and you say that prices go up because supply gets short from time to time, and that this is beyond your control.

Mr. AYERS: That is right.

Mr. ALLMAND: I am wondering why, if that is the case, there is such a variation in supply. This is a presumption I am making. I am wondering why the packers would not try to obtain a greater control of supply so that they would be able to guarantee, to the limit of their ability, a greater supply to the retailers.

Mr. AYERS: There is a tremendous investment involved in a deal like that, plus the ability to have proper management of those farms. We have been able to run our business without that sort of thing.

Mr. ALLMAND: Do you know if this is done in the United States or Australia where they have a large meat industry?

Mr. AYERS: Frankly, I do not know.

Mr. SMITH: May I ask a supplementary, Mr. Chairman?

Co-Chairman Mr. BASFORD: Yes.

Mr. SMITH: You are talking about the prohibition with respect to the Ontario Hog Marketing Board, but there is no prohibition against your financing pig farmers to grow pigs on contract with you supplying the feed and the small pigs, and then having them marketed? It is only a requirement to market the pigs through the Marketing Board. It is not a prohibition against your financing such an operation?

Mr. AYERS: That is right, but you cannot guarantee that those hogs will come back to you.

Mr. ALLMAND: In any event, you do not have any of these agreements with producers?

Mr. AYERS: Which kind of producers?

Mr. ALLMAND: I asked you if you had any agreements with producers to supply you hogs or cattle over, say, a period of one year or two years, and you supplying them with financing and things like that. Do you have any agreement like that?

Mr. AYERS: We have that weaner pig deal in Prince Edward Island.

Mr. ALLMAND: But that is on a small scale, from what I understand?

Mr. AYERS: Very, very small.

Mr. SMITH: What is the trade name of your pig feed that you market, and also your chicken feed?

Mr. AYERS: Swift's Feed.

Mr. SMITH: Swift's do have contracts with farmers with respect to financing the purchase of feed, do they not?

Mr. AYERS: Yes, right.

Mr. SMITH: But the only thing they do not control necessarily is the product's coming back to them?

Mr. AYERS: That is right.

Mr. SMITH: On such a deal presumably you make your profit out of the sale of the pig feed?

Mr. AYERS: The feed, that is right.

Mr. ALLMAND: On the other side, from what I understand from your brief, you market your products throughout Canada from coast to coast. I am wondering if you have any agreements or contracts with retailers that they will take so much of your supply. Do you have any guaranteed markets in the sense that you have set up contracts with these retail outlets?

Mr. AYERS: Not to my knowledge. Is there anything Mr. Christian that I do not know about?

Mr. CHRISTIAN: No, absolutely none, none of any kind.

Mr. ALLMAND: In other words you do not try to make arrangements with one supermarket chain or another that they will take so much of your products for a certain year or a period of years. It appears from your film that you have to sell from week to week and month to month to these different chains?

Mr. CHRISTIAN: And from day to day.

Mr. ALLMAND: How do you decide then on the mark-up of the different products that you seel to these people? Do they phone you up and say, "We want to buy so many cuts of this and what is your price?" And then do you say, "This is our price," and this is the fixed price you have decided upon; or is there always bargaiinng on price?

Mr. CHRISTIAN: Pricing a product to any retailer is not an exact science. There is not any way in which you can determine price of a product. So many factors enter into what you are going to ask for your product. We are dealing first primarily with a perishable commodity, which simply means something that must move and move quickly, so the process has to include very many factors and it has to include what happened last week or yesterday. Is the product moving freely, or is it backing up in the cooler? Are anticipated supplies heavy or are they light? What kind of returns are you getting back from the field? Was there a weaker market. Was there a bad storm over the weekend and retailers did not move the product across the counter. You cannot pin down to one thing what caused us to make the decision to sell it at a given price.

Mr. ALLMAND: The price you initially put forward to the retailers, is this a price that is set in Toronto or is it set by your sales districts throughout Canada, depending on local conditions?

Mr. CHRISTIAN: Our sales unit managers, and we have them across the country, have this individual responsibility to determine the market in each sales unit manager's area.

Mr. ALLMAND: Is there much bargaining in fact? For instance, do retailers in Ontario say, "I want to buy so many cuts of ham?" And you say, "This is our price," and he replies, "No, thank you, I think I will go somewhere else." Has this happened?

Mr. CHRISTIAN : Yes it does happen, but it happens in the way I explained earlier. It could be that we make an offer and the retailer will say that our price is too high. Now, we may elect to stand with our price and say, "That is too bad, if it is too high, we are sorry we cannot do anything about it." On the other hand, if the pipelines across the country indicate that the market is not as strong as we thought, we may go back and say we have reconsidered and would like to take half or a quarter off that offer.

Mr. ALLMAND: I presume therefore that your bargaining position depends on the conditions within your plant, let us say how much you have on supply and the information you have vis-à-vis what the retailer has.

Mr. CHRISTIAN: I do not completely understand your question.

Mr. ALLMAND: In other words, if the retailer knows you have a back supply he can force you to come down in price, because he knows you are going to supply at a loss if you don't get rid of it.

Mr. CHRISTIAN: This is possible with a product that is deteriorating almost now, but in a product that is being marketed over a wide area that is not the case.

Mr. ALLMAND: Do you offer to take losses on products because you cannot ship them at a price you want?

Mr. CHRISTIAN: Losses are not uncommon in the meat packing industry.

Mr. ALLMAND: Do you have a lot of men working for your company who are continually comparing prices with your competitors and checking with the turnover of your products in the retail outlets so that you know what is going on?

Mr. CHRISTIAN: To say that I know personally what is going on across Canada would be an over statement.

Mr. ALLMAND: But the men who set the prices, the divisional or district managers, do they have this information, do they have to have this playback?

Mr. CHRISTIAN: There is a feed back, yes, but it takes place in the market place. When you go in and take an order, if you have a quantity of a product on its way and go into store "A" and you were turned down, supposing your price was too high, and also in store "B" the price was too high, then if you wait for a period of time, that particular individual has to feed that information back to the manager, and if the manager has that same information coming back from a number of sources he may decide to reduce his price.

Mr. ALLMAND: Do you try to start off with a percentage mark-up on different products?

Mr. CHRISTIAN: No. We do know that we have a responsibility to return the greatest number of dollars we can, but we don't start with a percentage mark-up, no.

Mr. ALLMAND: If you have the responsibility of returning the greatest number of dollars you can, if your supply is short, you will raise your price higher, if you know there is going to be a heavy demand, such as at Eastertime when hams are in heavy demand, prices will go up—you will set a higher price.

Mr. CHRISTIAN: I wish it would go up, but they don't follow that kind of way. Our company, and every other company in the meat business, as the result

of anticipated demand builds up for that period of time and has supplies to take care of that demand at the time, that is, as a rule, because there are variations, of course.

Mr. ALLMAND: In selling to retailers how would you describe the competition, is it stiff competition?

Mr. CHRISTIAN: I would think, generally speaking, that would be correct, but it varies somewhat across the country, varies somewhat according to the supply, varies from area to area.

Mr. ALLMAND: Is it more competitive in Ontario and Quebec than in the Maritimes and the west?

Mr. CHRISTIAN: No. I would think that you would find pockets or areas of difference according to the individual market area.

Mr. ALLMAND: Were do you stand as to percentage of the market which you hold throughout Canada? What is you position as a meat packer?

Mr. CHRISTIAN: I don't have any exact information on this particular aspect.

Mr. ALLMAND: You do not know where you stand in volume of sales with respect to your competitors?

Mr. CHRISTIAN: When you say competitor, it is a most difficult thing. We are not in competition with just one or two but sometimes with as many as twenty or thirty, and from market area to market area. So that we may be in the position of No. 1 in one area and No. 10 in another area.

Mr. ALLMAND: From the examinations of people in this business who have already appeared before us, it seems that there are few very big packers in Canada, but you say that you have twentr or thirty competitors. Are there many big ones with economies on the scale of yours and of the bigger ones that have appeared before us?

Mr. CHRISTIAN: Big or bigger in a given area.

Mr. ALLMAND: You are saying that some may be small Canadawise but may be big in another area?

Mr. CHRISTIAN: Right.

Co-Chairman Senator CROLL: Mr. Urie?

Mr. URIE: I think it would be helpful, Mr. Chairman, if we could get some general terms for comparative purposes. For example, is it true to say that there is a "big four" in the Canadian meat packing business: yourself, Canada Packers, Burns, and Inter-Continental?

Mr. AYERS: I would say that is close to it.

Mr. URIE: Yesterday we had the total net sales of the Burns Company, and this afternoon we shall have the total net sales of Canada Packers in dollars. You have given us percentages. What are your total net sales for 1963-1964 and 1965, in round figures?

Mr. AYERS: I do not have them with me.

Mr. URIE: But you have them in your head.

Mr. AYERS: No, I haven't any idea, with all the figures I hold in my head.

Mr. URIE: Can you not give us your gross sales in one year?

Senator THORVALDSON: I think, Mr. Chairman, in all fairness to other packers which are Canadian companies in Canada, we should have the same sales figures from everyone. It would be appreciated if I might ask a question from Mr. Ayers now on that point. I take it that you do not publish a financial statement which becomes published in Canada, do you?

Mr. AYERS: No, we do not.

Senator THORVALDSON: You are a wholly owned subsidiary of Swift's of Chicago. Consequently, you do not publish your figures as to sales. Is it not fair

to ask you if you are the leader in Canada in sales? Someone must know that. You have the figures of Canada Packers who, I assume, are either the leaders or second. Surely it ought to be fair to ask you if you are the leader.

Mr. Chairman, I submit, secondly, that it is only appropriate that we should have the sales figures of everybody. Also, there is a problem in regard to these figures, that only about 75 per cent of the volume of this company is in meat products. Consequently, sometimes I have wondered how they can be as finally accurate as the figures of other companies who issue published financial statements.

I have some questions along that line later on, but I think it appropriate to refer to these points now.

Co-Chairman Mr. BASFORD: Senator Thorvaldson, I think your remarks are in line with the decision the committee made three weeks ago.

Senator THORVALDSON: I thought so.

Co-Chairman Mr. BASFORD: The present witnesses have undertaken to supply those figures.

There is also of course the problem of analysis of those figures when their sales represent other than meat sales, but we have the proportion of meat sales to other sales, which allows analysis of the figures here.

Mr. ALLMAND: I second what Senator Thorvaldson said. My last question is this. I wonder if you make generally a higher profit on your processed meats as opposed to your non-processed meats—in other words, on your becon, sausages, weiners and so forth?

Mr. AYERS: That varies. Generally, Mr. Beswick, do you not agree that the opportunity to make a profit is greater—

Mr. BESWICK: The opportunity is, but the facts are that we do not do a very good job profit-wise in processed meats, because of the competition.

If you make more per hundredweight, the per hundredweight relationship of freshed meat to processed, by way of absolute dollars—you have to make considerably more on processed to equal the potential. I am not talking factually, but talking potential.

Mr. ALLMAND: So, are you saying you make more profit on a non-processed product than you do on a processed product?

Mr. BESWICK: No. We say the opportunity exists to make more profit per hundredweight on processed meats.

Mr. ALLMAND: The opportunity? What do your figures show? Do you, in fact?

Mr. BESWICK: Our particular type of accounting makes it a little difficult to really adequately answer that, without looking into it a little more specifically. We have a variety of processed items, some of which we consider as commodities, because they are, to use a packing house term, "auction block items". We have very sophisticated type of products.

Mr. ALLMAND: What is your biggest seller, your biggest profit product—is it your bacon? Do you have no one item that is your best income maker?

Mr. BESWICK: A specific product or an area product?

Mr. ALLMAND: A specific product?

Mr. BESWICK: We have particular products within product areas. We have a particular sausage on a per hundredweight basis which is particularly profitable, probably our best processed meat product.

Mr. ALLMAND: What item is that?

Mr. BESWICK: It is a sausage item within our total sausage business.

Mr. ALLMAND: What would be the best profit making area?

Mr. BESWICK: It would be the so-called dry sausage, within the so-called table-ready meat area.

Mr. SMITH (*Simcoe*): You will mean the Polish sausage?

Mr. BESWICK: No, that is not a dry sausage.

Mr. AYERS: A dry sausage is not cured—salami and things of that kind.

Senator CARTER: Mr. Allmand has covered most of my questions. On page 5, you talk about identifying consumer wants and likes. I gather from your brief that you depend mostly on the information which you get from your salesmen, which they pick up from retailers, as to what the consumer wants?

Mr. AYERS: Not necessarily.

Senator CARTER: Do you carry out any investigations on your own, to find out what the consumer wants?

Mr. AYERS: Yes, we do. We have Mrs. Greta Elgis here. She is better known as Martha Logan. She is our home economist and will tell you about that.

Mrs. Greta Elgis, Home Economist, Swift Canadian Co., Limited: I am Greta Elgis, better known as Martha Logan, Home Economist for Swifts. I am a housewife and vitally interested in what happens to housewives. My department —I might say right now that I am a department of one—is probably spread thinner than that of any other woman in Canada. I travel from coast to coast; I do new product development; I work very closely with all our product departments that do new product development—the new recipe department, package labels. I write the copy for our packages, to give Mrs. Consumer specific information, so that when she buys that ham or roast, she does not have to waste time or waste the product by cooking it wrongly. We give this kind of information on the package. We give information on how long it will keep, how you refrigerate it and freeze it. We feel that this is very important.

I do a great deal of quality control. I am constantly testing our products against possible new products, possible improvements in our own products, and testing them against our competitors products, all the time. I do this at home as well as in my work. And I am not shy about telling our people if I feel our product is not standing up, if it is not up to par—and our people are quick to see that it is. We try to get ahead.

As to consumer services, I am talking to consumers constantly. I have probably anywhere from ten to 30 phone calls a day, and as many letters. I talk to women's groups. I travel. I am a people watcher. I go through the shops and watch the women shopping. I talk to them informally. Sometimes they know who I am and sometimes they do not know who I am, but they do give me information. I try very much to find out what the consumers want.

When I am talking on radio or television or other shows or things I might be doing, I always say "Please write to me if you are dissatisfied with out product or if there is anything you feel we can do to help you to bring out the best in the products."

In addition to this, we have consumer panels, mobile units that go round through our advertising agency. These people come in and test the product. We have of course consumer tests throughout our company.

This year, at the Canadian National Exhibition, we had between 2,000 and 3,000 people a day at our consumer evaluation panel. We tested our products against competitive products and it was a true test. I was the only person who knew which two products were being tested. These results are being tabulated by a research team. This was not just a shot in the dark.

We are vitally interested in what the consumer wants. Any consumer can write to me or call me or talk to me at any time, and I will pass the information on.

I think that is pretty well what we do. I could go on for a long time, telling you about what I do. I feel that our department is a very vital one. I might say that Swift was the first large company to hire a home economist, and her job was to interpret the needs of the consumer to the company, and not the needs of the company to the consumer. This is a distinction that is still being made.

Senator CARTER: In your own research you carry out tests in your home and in your plant. Do you try to determine food value of the product?

Mrs. ELGIS: Yes.

Senator CARTER: What is your idea of food value of say ham as compared with bacon?

Mrs. ELGIS: Ham is higher in protein than bacon.

Senator CARTER: Yet it is much cheaper. According to your Appendix "E-1" here, whereas bacon went up from 62 cents in 1965 to $1.04 in August of 1966, ham, according to Appendix "E-1", went up from 50 cents in 1965 to 75 cents in January of this year. Then it started to go down again. It is down now to 63 cents in October of this year. Do you try to educate the consumer?

Mrs. ELGIS: Yes, I do.

Senator CARTER: From the standpoint of food value, she should be buying ham instead of bacon.

Mrs. ELGIS: Yes, it is a wise shopper who knows that, and I try to get them to see it that way, but I cannot force Mrs. Consumer to do this. However, when I am talking to the consumers in cooking schools or through lectures on the radio, I do tell them that this is a good buy and I try to point out, of course, the fact that meat is the best buy per dollar value.

Senator CARTER: Would you say that the Canadian housewife is not food value conscious?

Mrs. ELGIS: I would not say that. Perhaps some of them could be a little more conscious of nutritional value, but I do not think people buy bacon because of the nutritional value in it. They buy it because they like it.

Mr. SMITH: It could be a prestige item.

Mrs. ELGIS: Yes, it could be a prestige item, but it tastes awfully good, too.

Senator CARTER: Would you say bacon has become a luxury item?

Mrs. ELGIS: No, I do not think it is. However, everything is so high priced today that I do not know what constitutes a luxury item. Frankly, if I were counting my pennies, though, I would be having ham and eggs in the morning more often than bacon and eggs.

Senator CARTER: That is what you do in your own home, I take it?

Mrs. ELGIS: Yes.

Senator CARTER: Thank you very much. I have one or two other questions, Mr. Chairman. In Appendix "B" I notice that the ratio between your profit and your return on assets remained the same in every year right up to 1965. It is one to six. Is there any special reason for that ratio holding true all through that period?

Mr. AYERS: No, there is not. It just happens that way.

Senator CARTER: Do you have the same ratio on your non-meat products?

Mr. AYERS: We do not have that broken down.

Senator CARTER: It is rather interesting that it should turn out that way every year.

Well, I will not take up any more time, Mr. Chairman. I think other people want to ask questions.

Co-Chairman Mr. BASFORD: Thank you, senator. Mr. Smith.

Mr. SMITH: When I had a supplementary a little while ago, we were discussing the Ontario Hog Marketing Board. As a buying company what is your observation as to the effectiveness of that board?

Mr. AYERS: I think the way we look at the Ontario Hog Marketing Board is that we feel that the producer can sell his livestock to us in any manner he wishes. They have elected to sell their hogs to the Ontario Livestock Marketing Board, and we are satisfied with that system of sale.

Mr. SMITH: Do you think it has added any stability to the price of hogs? Perhaps not stability, but has this system of marketing removed any of the wide and quick fluctuations from the price?

Mr. AYERS: I have not got those figures in front of me but they will fluctuate very widely under the present system; certainly, just as widely as they did before.

Mr. SMITH: Just as widely as they did before?

Mr. AYERS: In fact, it might be wider.

Mr. SMITH: You do not think it has changed things in that sense, then?

Mr. AYERS: No, sir.

Mr. SMITH: Most of the witnesses who were wholly owned subsidiaries of American companies have been asked questions concerning whether fees and licences, and sometimes research, are paid to the American parent companies by the Canadian subsidiaries. Do you pay fees for the benefit of Swift's research facilities in the United States? Do you pay for their ideas?

Mr. AYERS: Yes, we do.

Mr. SMITH: What fees? How are those fees fixed?

Mr. AYERS: Frankly, I do not know how they are fixed.

Mr. SMITH: There must be some ratio that they are fixed on, must there not?

Mr. AYERS: No doubt there is, but I have not got that information here.

Mr. SMITH: Could we have those amounts, and how it is done? Particularly, is it in relation to Swift's total sales in North America? Could we get that information?

Mr. AYERS: I will see what I can get for the committee.

Mr. SMITH: Now, what payments do you make to Swift's American, or Swift's Chicago, in relation to the use of ProTen?

Mr. AYERS: We do not make any direct payments for the use of ProTen, for that licence.

Mr. SMITH: Yes?

Mr. AYERS: No.

Mr. SMITH: None? Are there then payments for ProTen included in the other research payments you make?

Mr. AYERS: I have not got that knowledge.

Senator THORVALDSON: ProTen may be owned by your own company.

Mr. AYERS: It is owned by Swift Canadian.

Senator THORVALDSON: Not by the U.S. company?

Mr. AYERS: They own it, too, but we have it registered in Canada.

Mr. SMITH: I presume the United States owned it first.

Mr. AYERS: Yes, they did the research.

Mr. SMITH: If it was an arms length transaction you would be paying a licence or a royalty for the use of it in Canada. If it had been an arms length transaction?

Mr. AYERS: Yes.

Mr. SMITH: But you are not.

Mr. AYERS: That is right.

Mr. SMITH: Now, I have another question relating to the relationship of the two companies. We have had various figures in some of these briefs. I am sorry, I was in and out this morning and perhaps this has been asked, but, concerning the amount of the various cuts of pork that are imported into Canada, there are quite substantial amounts of hams and bellies, and sometimes very large amounts of them. Now, when you import parts of pigs into Canada, where do you buy them?

Mr. AYERS: We buy them from the parent company; we buy them through brokers on the outside market.

Mr. SMITH: What percentage would be bought from your parent company and what percentage would be bought on the open market?

Mr. AYERS: I would say that the bulk would be bought on the open market.

Mr. SMITH: Why?

Mr. AYERS: We are able to buy them cheaper.

Mr. SMITH: The corollary of that answer would seem to be that when you buy supplies from your American parent company they arbitrarily set the price.

Mr. AYERS: No, they are working on what they think the market is. Somebody else might think it is something else. The market varies. There is a very small spread in that price range; the spread may be a quarter of a cent or a half a cent, whatever the case may be.

Mr. SMITH: You are not required, though, to buy them from the parent company?

Mr. AYERS: No, sir.

Mr. SMITH: No? Now, yesterday there was some evidence about the high retail mark-up in bacon and in another item, sliced ham, which was being put up in six-ounce packages in vacuum packs that were being sold for 84 cents; yet half a pound, eight ounces, of the same product sliced in the store cost only 54 cents. Do your research people or do your salesmen take any cognizance of what the retailers do? Do you know whether some particular products of Swift's, or some particular class of products of Swift's, is being used as a high mark-up to balance out the operations of the grocery department of the retail store?

Mr. AYERS: Not to my knowledge. Mr. Christian, have you got anything to say on that subject?

Mr. CHRISTIAN: No, I do not think I have, Mr. Ayers.

Mr. AYERS: Neither have I.

Mr. CHRISTIAN: This is entirely the retail decision. It is not our decision.

Mr. SMITH: You do not go to them and say, "You are making us look like fools by charging such a high mark-up on such and such a product."

Mr. CHRISTIAN: No, sir, we are not oriented to the degree that we know what the situation is there. We do not research that field at all.

Mr. SMITH: In the feed business, is the sale of Swift's feeds to pig growers, chicken growers and cattle growers a big percentage of your overall business?

Mr. AYERS: No, it is not.

Mr. SMITH: Supposing you had sales of $200 million in meat a year, or $250 million of meat a year, what percentage of your sales of farm products relate to that of farm feed products?

Mr. AYERS: I am sorry, but I do not have that figure with me. I do not know.

Mr. SMITH: It seems to me that you people have not been following the proceedings of this committee as closely as some of the other companies which have appeared before us, because a few of the questions that have been asked today, for which answers are not available, would strike a bystander as being as obvious as the side of a barn door. Thank you.

Co-Chairman Mr. BASFORD: Senator Thorvaldson.

Senator THORVALDSON: Well, Mr. Chairman, I have the same criticism that Mr. Smith has in regard to certain of the answers, which I do not think have been as complete as the answers we get even from the published financial reports of Canadian companies. However, that really has nothing to do with the very few questions that I have.

I was going to ask you, Mr. Ayers, a question regarding your company in British Columbia, The Lower Mainland Hotel and Restaurant Supply Company. Would you explain just generally what products that company sells or manufactures?

Mr. AYERS: It is a very small hotel and restaurant supply company. It is specifically there to sell that type of trade.

Senator THORVALDSON: I take it then it is a relatively insignificant part of your business?

Mr. AYERS: Yes.

Senator THORVALDSON: I presume you as well as the other packing people in Canada are increasing in the area of the feed business.

Mr. AYERS: Yes.

Senator THORVALDSON: It is hard to see how you relate potash to beef.

Mr. AYERS: There is diversification.

Senator THORVALDSON: You want some place to put your extra money.

Mr. AYERS: Some place to make extra money.

Senator THORVALDSON: I want now to refer to Appendix "B" which is headed "Financial Information" and I particularly want to refer you to the third column "Wages, Salaries and Employee Benefits". I observe your wages have risen very considerably since 1960, your present index being 144.5 based on 100 in 1960. That is a very considerable increase in wages and salaries, is it not?

Mr. AYERS: That is the base labour rate at the bottom of the page. That goes through to 1968. We have just completed a contract with the union.

Senator THORVALDSON: That is from 1960 to 1968?

Mr. AYERS: We have completed a contract with the union that goes through to March 1968 and we put those figures in.

Senator THORVALDSON: My calculation is that based on 1960 the wages for males—I suppose that is salary to, or is it just wages?

Mr. AYERS: It is the base labour rate.

Senator THORVALDSON: But the increase is approximately 80 per cent based on the 1960 figures, is it not?

Mr. AYERS: I have not figured that out.

Senator THORVALDSON: I have just calculated it.

Mr. AYERS: In 1960 it was 100 and in 1966 it was 128.4.

Senator THORVALDSON: Yes, and in 1968 it will be 144.

Mr. AYERS: Yes.

Senator THORVALDSON: That is on the 1960 base line?

Mr. AYERS: Yes.

Senator THORVALDSON: That 44 is not a percentage?

Mr. AYERS: No.

Senator THORVALDSON: It is a different form of calculation. I refer now to the approximately 80 per cent increase in wage rates because I think it is very complimentary to your industry. I think it is also complimentary to your industry that you wages, salaries and employee benefits were 12.7 per cent in 1960 and 11.9 per cent in 1965 despite a very considerable increase.

Mr. AYERS: That is because of the increase in our dollar sales.

Senator THORVALDSON: Would you say automation was a factor in that?

Mr. AYERS: That would be part of it. But as our dollar sales increase the percentage figure would decrease in that particular case.

Senator THORVALDSON: So your dollar sales have been going up?

Mr. AYERS: For the last several years.

Senator THORVALDSON: What is happening with respect to automation?

Mr. AYERS: We are automating as much as we possibly can. We have to do so to keep competitive.

Co-Chairman Mr. BASFORD: A supplementary question: This would also indicate there has been an increase in productivity of your work force too?

Mr. AYERS: Partly that too. There are so many factors involved.

Co-Chairman Mr. BASFORD: It has only taken 11.9 per cent wages, salaries and employee benefits to move a dollar's worth of sales when before it took 12.8?

Mr. AYERS: As the dollar sales go up the volume goes up and we are able to maintain our work force at a pretty level figure. A part of that has been automation.

Senator THORVALDSON: The point I am trying to bring out is that if these figures are accurate there must have been a great improvement in productivity in your industry whether based on additional labour shills or automation or factors of another kind.

Mr. AYERS: We are continuously working in that particular area because we have to do so to compete.

Senator THORVALDSON: You are saying your industry is a very competitive industry.

Mr. AYERS: Very competitive.

Senator THORVALDSON: I would like to refer you to Appendix "C", pages 1, 2 and 3. I want to find out, Mr. Ayers, just what those figures actually signify. You have a lot of figures there, but you haven't given anything in percentage form which would indicate what they mean.

Mr. AYERS: Could I bring Mr. Swan up to answer that. He is head of the Beef, Lamb & Veal Department and he understands these figures very thoroughly.

Mr. R. E. Swan, General Beef, Lamb & Veal Manager, Swift Canadian Co., Limited: My name is R. E. Swan, and I am General Beef, Lamb and Veal Manager, Swift Canadian Co., Limited, Toronto.

Senator THORVALDSON: Do you have Appendix "C"?

Mr. SWAN: Yes.

Senator THORVALDSON: I refer you to CDA live choice steers, and the price on the Toronto market November 7, 1964 was $23 a hundredweight.

Mr. SWAN: That is the average price.

Senator THORVALDSON: Turning now to page 3 of that appendix, on October 15, 1966 that price was $27.75.

Mr. SWAN: Correct.

Senator THORVALDSON: In other words there has been a rise in price of choice steers on the Toronto market during this period of approximately $5 a hundredweight; is that right?

Mr. SWAN: Correct.

Senator THORVALDSON: Or a price increase of 20 per cent in your cost of live steers?

Mr. SWAN: Approximately.

Senator THORVALDSON: $5 on $23?

Mr. SWAN: Yes.

Senator THORVALDSON: That is about 20 per cent. I come now to your selling price in column 3 of page 1, "Swift Average Selling Price Choice Carcasses". On November 7, 1964 that was $40.02?

Mr. SWAN: Correct.

Senator THORVALDSON: And on page 3 I observe that by October 15, 1966 that had risen to $47.54 per hundredweight. In other words there was a price rise on carcases from approximately $40 to $47.50. Do you agree with me that that is approximately 20 per cent also—it is a little less, about 18?

Mr. SWAN: That is right.

Senator THORVALDSON: Would it be correct to say that a considerable reason for the increase in cost, or I should say in your price to your customers and their price to the retailer, is accounted for in the increased costs for livestock?

Mr. SWAN: Basically, yes.

Senator THORVALDSON: Does the same situation arise in pork products?

Mr. SWAN: I could not answer for pork.

Senator THORVALDSON: I think it does. I just wanted to bring out the fact that there had been a very considerable increase in the cost of the product that you manufacture. This is spelled out to a certain extent in the price.

Mr. SWAN: As a general rule the price follows the livestock price.

Senator THORVALDSON: We are trying to find out the real reasons for the increase in food costs in this committee.

Mr. SWAN: Correct.

Senator THORVALDSON: I was going to ask Mr. Ayers in regard to exports—do your exports to the United States or other countries account for a large percentage of your business or not?

Mr. AYERS: They do not.

Senator THORVALDSON: Would you care to hazard a percentage figure as to exports?

Mr. AYERS: It would be very hard to guess. If it is 5 per cent, I would be very much surprised.

Senator THORVALDSON: I think there is one question that is important, Mr. Chairman, and that is, Mr. Smith referred to payments you make to your parent company, and with regard to licenses, the cost of research and development, and so on. Do you pay a management fee to your parent company?

Mr. AYERS: That is in that figure; that is part of that figure.

Senator THORVALDSON: Because that would materially affect you if you paid a very large management fee and a fee for research and development. That would affect your financial statement to a certain extent, would it not?

Mr. AYERS: To a small degree.

Senator THORVALDSON: I am just wondering whether it is large or not.

Mr. AYERS: It would not be large.

Senator THORVALDSON: I think perhaps the committee should ask to get those in order that we might have a complete picture.

Mr. AYERS: I have agreed to furnish that information.

Co-Chairman Mr. BASFORD: This will be information relative to all payments to the parent company.

Mrs. MACINNIS: Do you sell to retail outlets other than the supermarkets?

Mr. CHRISTIAN: Yes, we do.

Mrs. MACINNIS: Large retail stores, single stores?

Mr. CHRISTIAN: Yes.

Mrs. MACINNIS: There are some large co-operative stores in western Canada and elsewhere. Do you sell to co-operative stores?

Mr. CHRISTIAN: Yes, we do.

Mrs. MACINNIS: My question was prompted by the publishing of a news story this morning that in Montreal one wholesaler had refused to deal with a co-operative store that was just starting there, and the thought has come to mind as to whether or not your firm would have any objection to dealing with co-operatives, or any policy in that regard.

Mr. CHRISTIAN: I can go back for 30 years in selling goods, and for a long number of years we have sold these goods historically whenever we could.

Mrs. MACINNIS: Would there be a large number of co-operative outlets?

Mr. CHRISTIAN: In western Canada there are; in Manitoba there are some; in Saskatchewan there are more; and in Alberta there are some, but not as much as in Saskatchewan.

Mrs. MACINNIS: Do you have the same display policies and give them the same reception?

Mr. CHRISTIAN: Yes, exactly the same.

Mrs. MACINNIS: In other words, as far as you are concerned, is there any difference in any respect in dealing with co-operative stores for your products and in dealing with the other kind?

Mr. CHRISTIAN: Absolutely none. We are anxious to sell to all retailers who will buy from us.

Co-Chairman Senator CROLL: Mr. Chairman, I share the observations that were made by Senator Thorvaldson and Mr. Smith with respect to the information. We asked everyone to give us their financial statement for the period 1960-65, inclusive, showing gross sales, margins, costs of raw materials, and so forth. Mr. Medland, who is General Manager, has been here throughout the proceedings and knew very well what we wanted. It is a little surprising to know that the President of the company does not know what the gross sales are.

My suggestion is that, instead of taking written reports, we open a date here for the Swift company to return very quickly with the information so that they can be subjected to cross-examination, just as the others have been, in fairness to the others; and I hope we will be able to have a date open here very shortly, as I look at our program.

Senator THORVALDSON: I might make this observation to Mr. Ayers, that the same problem arose with regard to A&P stores and they agreed to give us those figures.

Co-Chairman Mr. BASFORD: The steering committee is meeting tomorrow and Senator Croll's suggestion can be dealt with then.

Mr. AYERS: We were not asked for this information. We were asked if we published a statement.

Co-Chairman Senator CROLL: Mr. Medland was here and knew what the others were providing and what we generally asked. If the information did not reach you, that is not our fault. A&P knew about it and the others did also.

Mr. AYERS: Our instruction, received by wire, was that if we published a financial report we should bring it.

Co-Chairman Mr. BASFORD: In order to avoid an argument, I would ask you to go ahead with your questions, senator.

Co-Chairman Senator CROLL: Yes, I will go ahead with my questions.

Let me turn for a moment to the last page in the submission, Ontario hog price weekly—does that mean "grade A" hogs?

Mr. AYERS: Yes.

Co-Chairman Senator CROLL: Is there a grade B hog?

Mr. AYERS: Yes.

Co-Chairman Senator CROLL: Who buys grade B?

Mr. AYERS: The hogs are bought before they are graded. The government grader grades them on the killing floor. When buying we do not know whether they are grade A or grade B.

Co-Chairman Senator CROLL: What percentage would there be grade B?

Mr. AYERS: What are grade B now, Al?

Mr. BESWICK: The combination of A and B would be roughly 87 per cent of the 100; with A roughly 40 per cent, and B, 45 per cent.

Co-Chairman Senator CROLL: There is an element of B?

Mr. BESWICK: Yes, absolutely.

Co-Chairman Senator CROLL: You give us the price paid for grade A?

Mr. BESWICK: Yes. We buy them all as grade A.

Co-Chairman Senator CROLL: I am going to run over the third week in June. You will notice the price was 38.45. Then it commences to fall. The selling price continued to fall to the third week in June when it was 38.45 and the selling price was 91 cents—is that right?

Mr. BESWICK: That is correct, sir.

Co-Chairman Senator CROLL: And the next week it dropped to 37.63, and the selling price was still 91 cents?

Mr. BESWICK: Yes.

Co-Chairman Senator CROLL: The first week in July it was 35.55, and it had remained at 91 cents?

Mr. BESWICK: Yes, that is correct.

Co-Chairman Senator CROLL: And the fourth week, the second week in July, it was 34.80, and it had remained at 91 cents?

Mr. BESWICK: Yes.

Co-Chairman Senator CROLL: Then the third week in July it continued to drop, to 34.43, and the selling price jumped up to 92 cents?

Mr. BESWICK: Yes.

Co-Chairman Senator CROLL: And then it went to 34.69, and jumped up to 94 cents?

Mr. BESWICK: That is correct.

Co-Chairman Senator CROLL: Then it dropped again to 33.55, and jumped up to 95 cents?

Mr. BESWICK: That is correct.

Co-Chairman Senator CROLL: And then 33.87, and it jumped up to 98 cents?

Mr. BESWICK: Yes, sir.

Co-Chairman Senator CROLL: Then 33.47, and it jumped up to $1.04?

Mr. BESWICK: Yes.

Co-Chairman Senator CROLL: And then 33.67, and it jumped to $1.03?

Mr. BESWICK: Yes.

Co-Chairman Senator CROLL: And then 33.86, to $1.03. Then in September it was 33.78, to $1.03. The second week in September it was 33.52, going down further, and still remained at $1.03.

Now, significantly, if I might point out, Mr. Ayers, on the second week in October it rose to 33.66, and yet the selling price remained at 94 cents. In the third week it dropped a penny or two and remained at 94 cents. In the fourth week it went up a few decimal points and moved to 93 cents.

I wonder if you would care to comment, since October 1 was the date when these hearings first started, and it occurred to me that the trend was the other way. Can you explain that?

Mr. AYERS: As far as I am concerned, Mr. Senator, the hearings had nothing to do with this trend in the price of bacon.

Co-Chairman Senator CROLL: Well, what is the factor that had, you were paying less and somebody was getting more?

Mr. AYERS: Mr. Beswick has that answer.

Mr. BESWICK: Immediately after the presentation of our brief we suggested the problem associated with bacon was severe enough that we actually wrote a statement, which I believe has gone into the record, which detailed at least to some degree the distinctly different supply and demand factors influencing hogs, bellies and sliced bacon. The price of sliced bacon must be looked at separately in light of the supply and demand factors relating to it. The condition of belly prices must be looked at in relation to the supply and demand vogue at that time. They are not related. Belly to hog is only 13 per cent, Mr. Chairman.

Co-Chairman Senator CROLL: When you are preparing your material would you let us have a statement covering both hogs and cattle which shows the prices—your prices are at Toronto, are they not?

Mr. AYERS: Yes.

Co-Chairman Senator CROLL: Would you prepare a statement showing us what you actually paid for hog and beef carcasses during the first complete week of February, 1965, the first complete week of February, 1966, and the last complete week of October, 1966. I will ask you also to state for those same periods the wholesale prices of the major cuts which you were offering.

Co-Chairman Mr. BASFORD: Mr. Urie?

Mr. AYERS: Could we have just a minute, please?

Co-Chairman Mr. BASFORD: There was a just a little technical difficulty in respect to supplying this information, which Dr. James can explain to the witness afterwards.

Co-Chairman Senator CROLL: With respect to the question on bacon that I asked you, you indicated that when you were paying less the consumer was paying more. As I got the substance of your answer, it was to the effect that those things are not related. Did I understand you correctly?

Mr. BESWICK: Senator Croll, we have not listed this—not because we did not want to, but in respect to the matter of supplies during this period the United States belly market dropped considerably during the period you are talking about. This had a far greater influence on the price of Canadian sliced bacon to the retail outlet than did the hog prices in Canada.

Co-Chairman Senator CROLL: What effect?

Mr. BESWICK: The fresh bellies that are produced from the hogs cut today are only a portion—sometimes they are in excess of the requirements for sliced bacon, in which case there will be bellies going into the freezer, as was evidenced in February, 1964. If there is a deficit of sliced bacon we then have to call on the inventories in either the United States or Canada.

Co-Chairman Senator CROLL: Our business is to find out who done it. You tell us who done it.

Mr. BESWICK: I repeat, sir, that for the cost of sliced bacon we would have to look south of the border.

Co-Chairman Senator CROLL: To the Americans?

Mr. BESWICK: Yes, sir.

Co-Chairman Senator CROLL: They do take a lot of beatings do they not?

Mr. URIE: Is it not possible for you to supply us with information as to the availability of bellies, either American or Canadian, at the time these prices rose? If you look at the prices of green bellies at the time that there was a dramatic increase in the price of bacon, you will see that the price of green bellies did not go up at all.

Mr. BESWICK: Canadian green bellies?

Mr. URIE: Canadian green bellies. You have hit upon the solution that the evil arises by virtue of the fact that you have to buy other green bellies to supplement the demand. That being the case, do you not think you could provide us with information as to the numbers of bellies your company had to buy from sources other than the Ontario market?

Mr. BESWICK: May I say that we bought bellies from the States, fully processed and in the frozen form, in the months of August, September and October. If you look at the period from August to October with respect to Canadian bellies you will see that the price dropped only 12 cents. Then we have the price of American bellies laid into Toronto. During the first week of August they were $57.78 a hundred, and in the last week of October they were down to $39.42 a hundred, which is a difference of $18.36. The Canadian belly market dropped only 12 cents.

Mr. URIE: But the price of No. 1 premium sliced bacon, according to your figures, dropped in the same period only a total of 10 cents.

Mr. BESWICK: Maybe I should refer you to the supply and demand factors that I referred to earlier in respect of sliced bacon. Only one of them was cost.

Mr. URIE: I understand that, but then, as I understood your explanations earlier when you first went into this subject, Mr. Beswick, you said that one of the elements was cost—that the most important element was cost. This is what I understood you to say.

Mr. BESWICK: That was the second factor in respect of sliced bacon. The first one I put was inelasticity of demand.

Mr. URIE: How can you say that there was—I must confess I do not follow you when you say that there was an inelastic demand for bacon which caused the price of bacon at the retail level, or the price from you to the retailer, to remain high at the same time that the price of bellies, both American and Canadian, went down. Surely, bacon has to come from the bellies. The demand at the retail level is still going to remain as it was. Surely, the price could come down too. In other words, you are flooding the market with the low priced bellies that you obtained. Why does not the consumer get the benefit of lower prices?

Mr. BESWICK: First of all, we have shown you what the prices of hog bellies, Canadian, were. I have told you what the United States belly prices were for comparable periods, and also the selling prices. First of all, the reaction of hog prices—there is no direct co-relation. To interpret a price change either up or

down at the same moment in time as it takes place at anywhere from one to five stages later is physically impossible. The problem is getting United States bellies, when they are of value. It takes five or six days before this lower price can be interpreted into our cost. That is the major factor.

Mr. URIE: What is the major factor?

Mr. BESWICK: Whatever bacon is selling at is the major factor.

Mr. URIE: That is the point.

Mr. BESWICK: We have not denied it.

Mr. URIE: With the greatest respect, you gave the committee the impression that the major element in these high retail prices of bacon was the cost. Now, may I ask you to submit—

Mr. BESWICK: I beg your pardon, sir, but I prefer that not to go into the record, because we did not list it as number one. I am sure my company would not contend that cost is the greatest single point at any point of time in the selling of bacon. I am sorry for giving you a wrong impression.

Senator THORVALDSON: Was there ever any doubt in this committee that the law of supply and demand still prevails in this country.

Mr. URIE: Nobody suggests it does not.

Senator THORVALDSON: To get away from that would mean a new social system.

Co-Chairman Mr. BASFORD: We are concerned with prices, and not social systems.

Senator THORVALDSON: Prices are basic to the laws of supply and demand.

Co-Chairman Mr. BASFORD: Yes, I recognize that, senator.

Mr. URIE: One thing that intrigued me, Mr. Beswick, is that at the bottom of page 3 you say:

> When pork loins, hams, bellies, etc, are produced, there is no satisfactory method, in our opinion, to determine the actual cost of the individual cut.

At the same time you are able to give us to a tenth of a cent the profit per pound which you can obtain on sliced bacon, and so on. How can you give us the profit on a pound of bacon to a tenth of a cent when you say you cannot determine the actual cost of the individual cut? Surely, you have to start with the cost before you can determine the profit.

Mr. BESWICK: Mr. Urie, there were a considerable number of hours of soul-searching spent on how we could do it. We have prefaced our remarks with respect to results by saying that they are an estimate, sir, and we are quite confident that these estimates could be plus or minus several points; because we have to take it in that way by the very nature of the pork business, unless we choose arbitrary starting points, which our company does not do; so we have no way of knowing what a belly costs when we buy a hog. We know that 13 per cent of the hog was a belly, but what the cost of it was, we do not know.

Mr. URIE: Then how do you determine the profit in the statement?

Mr. BESWICK: By estimate. We have said that they are an estimate and any time during this period we can do nothing else than to say it is estimated.

Mr. URIE: On what basis do you estimate these elements of profit on bacon particularly? You have said that the high cost of bacon when it is processed was because of the inelastic demand, and naturally the law of supply was a part—

Mr. BESWICK: The selling price.

Mr. URIE: I am sorry, the selling price—but because of the inelastic demand. You have also made the statement, and Senator Thorvaldson pointed out, that

the old law of supply and demand must still prevail and that at certain times because there is a greater demand selling prices will be higher. If you are only getting less than one tenth of a cent per pound in 1966 on sliced bacon, what would your average profit be at times when the prices of bellies were considerably lower.

Mr. BESWICK: We made reference in our initial statement about our monthly losses, and we do our business on a monthly basis. We have lost considerable money in cents per pound during certain months of the year. We have made in the highest single month an estimated high profit of 4.9 cents per pound. The sum total of these losses in months reveals a profit to date this year of .62 cents per pound.

Mr. URIE: What was the profit in the month of September?

Mr. BESWICK: One was higher and one lower. I am sorry, I do not have this breakdown.

Mr. URIE: One was 4.9. What was the other?

Mr. BESWICK: I do not have that. I just took the extremes. It could be provided, if the committee so desires.

Mr. URIE: It might help your case in a way if we were given the figures in the high selling price months for bacon, and if we were to know what your elements of profit were in those months.

Mr. BESWICK: Since the high peak in August, would that be the month you would want?

Mr. URIE: Yes, I think so.

Mr. BESWICK: We can get that for you, sir.

Mr. URIE: I think that is all I have for you at the moment, sir.

Mr. BESWICK: Thank you.

Mr. URIE: I would like to ask Mrs. Elgis one question. You mentioned new product development?

Mrs. ELGIS: Yes.

Mr. URIE: Would you just relate very briefly the way you introduce new products and develop markets for them?

Mrs. ELGIS: I do not think that is entirely my department. I only work with it.

Mr. URIE: I am sorry, but you mentioned it.

Mrs. ELGIS: New product development, this is when we are developing formulae. I do help promote products, but I really think this is not my field.

Mr. AYERS: Mr. Medland?

Mr. MEDLAND: You asked how we go about introducing a new product. Do I understand your question correctly? You are not interested in development at this point, but actually the introduction into the market?

Mr. URIE: Yes.

Mr. MEDLAND: Let me take Lazy Maple Bacon which is a product developed by one of our Canadian meat packing plants and is based on a new method of curing bacon with maple sugar, giving a distinctive maple flavour and aroma to the bacon. We first, of course, tested this out in a home test by our home economist, in the "Martha Logan" kitchen. We did a great deal of planning and decided to market this product. We then produced a television commercial featuring Lazy Maple Bacon, and temporarily diverted T.V. time we had bought in order to introduce Lazy Maple Bacon. We also had a heavy sampling program with our salesmen and their families. This is the type of product you can get them enthusiastic about, because it is sampled in their homes. We also had a sampling program with retailers and their wives. In many cases we actually

found out where the retailer lived and sent a sample right to his wife, and the wife was able to serve it in the home. We also served it at breakfast for various retail groups. Then we had some literature which we gave to our salesmen, and we called them in and served them a breakfast, and then they were able to go out to the trade and start taking orders for it.

Mr. URIE: Did you have in store demonstrations too?

Mr. MEDLAND: No, we didn't use in store demonstrations on Lazy Maple Bacon although we do use this on some other products.

Mr. URIE: Is it right to assume that you put that new product on the grocery shelves by way of promotion?

Mr. MEDLAND: There was no promotion of the product other than the sample. I do not have a figure, but I would say the total figure would be less than $10,000.

Mr. URIE: That is for one product?

Mr. MEDLAND: That is for national distribution.

Mr. URIE: That is for one product. Now, that gives us an idea of how you go about it.

Mr. MEDLAND: It is somewhat easier in a product like this because you can get the message through to the people really quickly.

Mr. URIE: Other products are more expensive?

Mr. MEDLAND: Yes. They might not have an immediate appeal and be difficult to manage.

Mr. URIE: In your financial statement Appendix "B", under what heading would that type of expense be shown.

Mr. MEDLAND: The bulk of it would be shown under advertising.

Mr. URIE: Is that under the heading "Other Expenses"?

Mr. MEDLAND: Other expenses.

Mr. URIE: When you provide us with further information, I think it would be very useful if that heading were broken down to show the various elements, because it amounts to rather a substantial proportion of your total expenses, and I think it would enable the committee to draw some comparisons with information which has already been given by some other organizations. It was for that reason I asked the question about new product promotion.

On Appendix "B" you have shown your return on assets employed as percentages from 1960 to 1965. Presumably those percentages are calculated after payment of tax.

Mr. AYERS: Yes.

Mr. URIE: There are many different ways to calculate return on investment. Could you tell us what was the basis used to determine your percentages?

Mr. AYERS: Yes. This percentage return is arrived at by dividing total assets, including cash, accounts receivable, inventories, depreciated value of fixed assets, into net earnings after tax, and multiplying by 100.

Mr. URIE: In other words, you did not do it in the way some firms do it by relating it to shareholders' equity?

Mr. AYERS: No, we don't do it that way.

Mr. URIE: Is this a system or a formula which has been used by your company in the past; is it used by your parent company in the United States?

Mr. AYERS: Yes.

Mr. URIE: And published that way?

Mr. AYERS: It is published that way, to my knowledge.

Mr. URIE: By Swift Company?

Mr. AYERS: It is a public company.

Mr. URIE: So presumably your net profits are included in their net profits?

Mr. AYERS: That is right.

Mr. URIE: And in your financial statements your gross and net sales are also shown with theirs?

Mr. AYERS: Yes.

Mr. URIE: It is a consolidated statement?

Mr. AYERS: It is a consolidated statement.

Mr. URIE: Turning to Appendix "C" referred to by Senator Thorvaldson earlier, I would like to make this comment. Senator Thorvaldson made the point, quite validly, that there was approximately 20 per cent increase in the price of live choice steers and that your selling price increased by approximately the same percentage amount. But in November 1964 the differential between the price that was paid for live choice steers and that which you obtained on your sales price, was approximately $17.00, and that gradually crept up, over the period, until October of 1966 there is an approximate differential of $20.00, or an increase of $2.50 per hundred weight. Am I correct in that?

Mr. SWAN: As I understand the question, you are asking for the differential between livestock—

Mr. URIE: I did not ask for the differential. I know the differential. All I am asking is this. The differential between the price paid on the Toronto market and the price that you sold your carcass beef for in November 1964 was $17.00, and by the time we get down to October 1966, two years later, the differential is $20.00, or a difference of $3.00, an increase of $3.00.

Mr. SWAN: I did not finish my statement. The differential between the ratio of prices between live and dressed fluctuates. Out of a steer, on the average, it has been quoted, about 57 per cent is the yield, and the balance is made up of by-products and waste. The higher the live steer price goes—the greater difference you have in dollars.

For quick figuring, using easy figures, if you take a steer costing 18 cents and get a 60 per cent yield, and adjust meat into money, you divide the yield, without expenses and by-products and so on—you have a 30 cent carcass, that is 12 cents differential—right?

You get a steer which goes to the 24 cent level, you divide that into 60—the yield does not change because of the higher price of the steer and you get a 40 per cent carcass, a 16 cent differential. The higher steer value, the more yield you can get by way of the higher cost and the same price.

Mr. URIE: I see. So that does not mean that there is any greater element of profit in the Swift calculation?

Mr. SWAN: Not from that calculation. You divide 60 into the 30 cent steer, which we have close to on the Toronto market now; you have 50 cent meat and 20 cent spread, between that live cost and meat into money, and I am excluding expenses and so on. That will be your answer there.

Mr. URIE: Just as a matter of interest, so that I can translate this into dollars again, total dollars that are coming to the Swift Company, how many carcasses would Swifts sell in the last year that you have, say 1965? How many carcasses?

Mr. SWAN: You mean specific numbers?

Mr. URIE: In round figures, yes.

Mr. SWAN: You are talking in the terms of carcasses, dressed carcasses. That would be a hard figure to determine. We do not keep a record of that as such.

Mr. URIE: If you multiply the $3.00 differential by the number of live carcasses, it would give a figure which would have some meaning, would it not?

Mr. SWAN: No.

Mr. URIE: It would have no meaning at all?

Mr. SWAN: No, because you have different grades, when you are talking of carcasses. Not all top quality meats are related to choice steers.

Mr. URIE: You have various grades. but you have taken an average here, I take it.

Mr. SWAN: This C.D.A. live price is on average quality choice cattle.

Mr. URIE: And what is the average selling price?

Mr. SWAN: Of red steers?

Mr. URIE: All I am looking for is the average number of dollars for the total number of carcasses sold by Swift Canadian Co., Limited in a given period.

Mr. SWAN: The total dollars?

Mr. URIE: Yes.

Mr. SWAN: I do not think our bookkeeping system would record that. We do not have that information.

Co-Chairman Mr. BASFORD: Do you know how many carcasses you bought?

Mr. SWAN: We know the cattle we bought. You are staying with carcasses.

Mr. URIE: You start off with steers and it is natural to switch to carcasses.

Mr. SWAN: If you start with the number of cattle we bought and the beef that we sold, that is something else, because it would be in the form of carcasses, quarters, kinds and so on.

Co-Chairman Mr. BASFORD: It was said earlier that most of your sales are in beef or carcasses.

Mr. SWAN: Yes.

Mr. URIE: What percentage are carcasses?

Mr. SWAN: I want to break that down. Are we talking about shippers beef or store beef? I am thinking of cattle, used for boning and processing.

Mr. URIE: Give us percentages. We are learning a little more as we go along here.

Mr. SWAN: I have not got exact percentages at hand in the dieffrent categories of cattle.

Mr. URIE: Is that available?

Mr. SWAN: We could accumulate that for a given period. Our percentage of each.

Mr. URIE: I would suggest that it be for the same period that you have given us in Appendix "C", November 1964 to date. And if it is possible to answer the question—it may not be possible and we will have to rely on you for this—if it is possible to determine the number of carcasses. You have given us the average selling price of choice carcasses. To me it becomes meaningful, and to the members of the committee, if we know the number of carcasses that you sold and the increased dollars that came into the Swift treasury by virtue of the fact that there has been an increase of $3.00 in the carcass selling price, bearing in mind your explanation.

Mr. SWAN: On that one particular grade? You are talking about choice grade?

Mr. URIE: Can that be done?

Mr. SWAN: I want to qualify that. We are quoting C.D.A. choice live steers here. We do not buy all of our cattle to grade into choice on the Ontario market. I would say a very small percentage of that particular grade of beef. We also buy cattle on that market that not only come in loads, not only do they have choice grading, they have been slaughtered and graded by government graders, they

will have other grades, such as second grade or good grade and so on. We do not record, as such, our purchase price of red steers. I am quoting that on dressed basis, our choice steers. We do not record that.

Mr. URIE: But you know what the market is?

Mr. SWAN: Yes, but that will not be reflected probably by what our live steers cost. You understand that this is an average. You have a high and low quoted on the market.

Senator THORVALDSON: When you buy a steer, you do not know it is choice until it become beef, do you?

Mr. SWAN: Our buyers know pretty well, within a range, and when we buy, our buyers recognize that, when buying cattle.

Mr. URIE: You provided these figures for us, you set the ground rules and now you give explanations. Perhaps we should have the complete explanation when you next come before us, of the figures for your beef purchases and sales.

Co-Chairman Mr. BASFORD: We have already asked for that. Senator Croll asked for those figures for three representative weeks, for beef and hogs.

Co-Chairman Senator CROLL: For three weeks.

Mr. URIE: I think that, to be meaningful, this should be for the whole period furnished, if that is feasible, it is not unsurmountable, but I defer to your judgment on that.

Mr. SWAN: In our method of operating, it would be impossible for us to determine. You want us to determine the live price of the livestock that we buy, which will come under the choice category, and then relate that to the sales dollar for the meat. That would be an impossible job because we have not got the records to do it. We do not do our business that way.

Mr. URIE: Would you see what you can do anyway?

Mr. SWAN: We will see what we can do, yes, sir.

Co-Chairman Mr. BASFORD: I have a few parochial questions I would like to ask you, Mr. Swan. Where do you buy your beef for British Columbia?

Mr. SWAN: Our livestock, our cattle?

Co-Chairman Mr. BASFORD: Your cattle, yes, your livestock on the hoof.

Mr. SWAN: We generally purchase a certain percentage—it is running now around 40 per cent—at Calgary or Lethbridge. We ship them live and slaughter them there at our plant at Richmond.

Co-Chairman Mr. BASFORD: All right. Where does the beef come from for the Vancouver market?

Mr. SWAN: That beef, or part of it, is slaughtered in the Vancouver area. Part of it could be shipped and is shipped from Edmonton and from Calgary. I am talking about our supply now. That is from Edmonton and Calgary.

Co-Chairman Mr. BASFORD: What happens to the beef that is raised in Chilako, in Cariboo? Do you buy any of that cattle?

Mr. SWAN: Yes, we do buy cattle from what we call the interior areas, and we slaughter it at our plant.

Co-Chairman Mr. BASFORD: Where is that?

Mr. SWAN: In Richmond.

Co-Chairman Mr. BASFORD: I see. It goes into Vancouver.

Mr. SWAN: Into the Vancouver area, yes.

Co-Chairman Mr. BASFORD: Is there not quite a business of taking interior cattle to Calgary to the feed lot and then shipping it back to Vancouver?

Mr. SWAN: I would say so. It is being done. Feeder cattle, if you want to use the word export, are exported out of British Columbia, or out of the interior, back to Calgary and are fed there. I might say, though, that feeding operations are, increasingly, becoming a factor in the Fraser Valley.

Co-Chairman Mr. BASFORD: Well, it strikes me as an awfully expensive process to take live beef from Kamloops, for example, and ship it to Calgary and then back to Vancouver as carcasses.

Mr. SWAN: I would say so, but, of course, that is in the area of the producers. Again, they are competing for those feeder cattle in the interior.

You will understand that, if you feed in the Vancouver area, you will have to draw feed to the cattle, whereas there is more feed available in Calgary, and there is an off-setting factor there.

Co-Chairman Mr. BASFORD: Well, which is the cheaper transportation? Is it cheaper to ship cattle or to ship feed?

Mr. SWAN: That is a kind of mathematical question.

Co-Chairman Mr. BASFORD: It is one to which I thought you would know the answer.

Mr. SWAN: It depends on the amount of feed you are going to use and the weight of the cattle. There are lots of factors which enter into it.

Co-Chairman Mr. BASFORD: Which is cheaper? Is it cheaper to take the feed to the cattle or to take the cattle to the feed?

Mr. SWAN: The general rule is to take the cattle to the feed.

Co-Chairman Mr. BASFORD: Is it?

Mr. SWAN: Yes.

Mr. AYERS: That is what is happening now.

Mr. SWAN: That is pretty well a rule of thumb. It has been recognized that it is impractical to ship feed from one area to another, but you can bring cattle to where the feed is.

Co-Chairman Mr. BASFORD: So you bring the cattle out of the interior to Calgary and you feed them there and then you slaughter them and send them back to Vancouver as carcasses?

Mr. SWAN: We do not. The producers do.

Co-Chairman Mr. BASFORD: The producers do.

Mr. SWAN: Yes.

Co-Chairman Mr. BASFORD: Which strikes me as an awfully expensive process.

Mr. SWAN: It looks that way, yes.

Co-Chairman Mr. BASFORD: I was wondering what efforts "Martha Logan" had put into getting British Columbians to eat grass-fed beef.

Mrs. ELGIS: I am afraid I have not put any effort into that.

Co-Chairman Mr. BASFORD: Well, it is a great deal cheaper, is it not?

Mrs. ELGIS: I really do not know. I am purposely completely ignorant of prices, as far as general prices go. I can only suggest good buys. I think that, as far as that goes, the Canadian housewife is a pretty smart "gal" and she must know where the best buys are.

Mr. SWAN: To answer your question about grass-fed beef, my understanding of the situation is that there has been for a long time a differential between grass-fed beef and grain-fed beef.

Co-Chairman Mr. BASFORD: I am afraid members of the committee cannot hear you.

Mr. SWAN: There has been a differential, but it is gradually narrowing right now in British Columbia. At one time there was quite a differential between grass-fed beef as such, or range beef from the interior, and Alberta prairie-fed beef.

At one time the cattle which were slaughtered in British Columbia were shipped from Calgary, or from Alberta generally, alive, but that is gradually working itself out. I think you will find, as feeding operations grow in the lower Fraser Valley, that grass-fed beef will disappear and beef will be marketed, probably, as feeders rather than as range beef.

Co-Chairman Mr. BASFORD: What does the feeding do for the cattle?

Mr. SWAN: Well, in short, it adds weight. It brings them from a yearling steer of approximately 750 pounds, going on feed, to a finished weight of 1,000 pounds, or 1,050 pounds, or whatever weight you desire. It also improves the quality, because they are fed on grain rations. You have a better quality product.

Over the past few years this has resulted in the production of top-quality beef in this country, which, as we all know, has increased tremendously in proportion to the beef on the market.

Co-Chairman Mr. BASFORD: Thank you. If there are no further questions, I would like to thank Mr. Ayers and his colleagues for coming here this morning, presenting their brief and answering the questions put to them. I would also thank you for undertaking to supply the information that has been requested.

On behalf of the committee, sir, I want to thank you and your colleagues.

The committee stands adjourned until three o'clock this afternoon, when we will have Canada Packers Limited before us.

The committee adjourned.

APPENDIX 'A'


SWIFT CANADIAN CO., Limited - LOCATIONS
Legend
MEAT PACKING PLANTS
SALES UNITS
DAIRY & POULTRY PLANTS
FEED MILL
HATCHERIES
POTASH MINE
GROCERY SALES UNITS
ADHESIVES
CHEMICALS FOR INDUSTRY
AGRICULTURAL CHEMICAL
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
MANITOBA
ONTARIO
QUEBEC
NEWFOUNDLAND
NEW BRUNSWICK
PRINCE EDWARD ISLAND
NOVA SCOTIA
NORTHWEST TERRITORIES
Hudson Bay
Atlantic Ocean
Lake Superior
INTERNATIONAL BOUNDARY
PRINCE RUPERT
PRINCE GEORGE
RICHMOND
VANCOUVER
NEW WESTMINSTER
VICTORIA
EDMONTON
CALGARY
LETHBRIDGE
SASKATOON
ALLAN
REGINA
YORKTON
MELVILLE
NEEPAWA
WINNIPEG
ST. BONIFACE
FORT WILLIAM
SAULT STE. MARIE
TIMMINS
SUDBURY
ROUYN
MONTREAL
OTTAWA
QUEBEC CITY
TRENTON
TORONTO
BURLINGTON
NIAGARA FALLS
WESTON
GUELPH
STRATFORD
LONDON
HANOVER
WYOMING
WINDSOR
SAINT JOHN
MONCTON
DARTMOUTH
HALIFAX
SYDNEY
ST. JOHN'S

APPENDIX "B"

SWIFT

Financial Information

	1960	1961	1962	1963	1964	1965
	%	%	%	%	%	%
Net Sales	100.0	100.0	100.0	100.0	100.0	100.0
Livestock and Raw Materials	72.7	74.6	75.0	75.8	74.7	75.3
Wages, Salaries and Employee Benefits*	12.7	12.2	12.0	12.0	12.3	11.9
Freight on Sales	2.9	2.8	2.8	2.4	2.3	2.3
Supplies	4.2	4.0	3.8	4.0	4.0	3.8
Other Expenses	4.8	5.0	4.8	4.5	4.6	4.6
Income and Other Taxes	1.6	1.0	1.0	1.0	1.2	1.3
Profit	1.1	.4	.6	.3	.9	.8
Return on Assets Employed	6.8	2.3	3.6	1.9	5.1	4.6
*Number of Employees	4,922	4,975	4,787	4,788	4,927	4,977

Toronto Meat Packing Plant—Base Labour Rates

	1960	1961	1962	1963	1964	1965	1966	1967	1968
MALE	1.85	1.91	1.96	2.01½	2.07½	2.12½	2.37½	2.57½	2.67½
Index	100	103.3	106.0	109.5	112.1	114.9	128.4	138.5	144.5
FEMALE	1.72	1.78	1.83	1.88½	1.94½	1.99½	2.24½	2.44½	2.54½
Index	100	103.5	106.5	109.0	113.0	116.0	131.0	142.2	148.0

APPENDIX "B-1"

SWIFT

Advertising and Promotion—Food Products Only

	1962	1963	1964	1965
	$	$	$	$
Advertising Cost per cwt	.25	.22	.19	.22
Promotion Cost per cwt	.15	.17	.19	.16
Advertising and Promotion Cost per cwt	.40	.39	.38	.38
Advertising Cost per $ sales	.007	.006	.005	.006
Promotion Cost per $ sales	.004	.005	.006	.005
Advertising and Promotion Cost per $ sales	.011	.011	.011	.011

APPENDIX "C"

SWIFT

Page 1

Toronto—Choice Steers—1965–66

W.E.	Cda Live Choice Steers	Swift Avg. Selling Price* Choice Carc.	Cda Reported Tor. Choice Sale Price Low	High	Avg.
Nov. 7/64	23.00	40.02	38½	42	40.4
14	23.50	40.47	39	42	40.4
21	23.50	40.96	39½	42	40.6
28	23.50	40.94	39½	42	40.8
Dec. 5	23.50	40.95	39½	42	40.8
12	23.50	40.95	39½	42	40.8
19	23.50	40.93	39½	42½	40.9
26	23.50	40.98	39½	42½	40.9
31	23.50	40.94	39½	42	40.8
Jan. 9	23.50	40.97	39½	42	40.8
16/65	23.50	40.97	40	42	41.0
23	23.50	41.00	40	42	41.1
30	23.50	41.02	40	43	41.5
Feb. 6	23.50	41.02	40	43	41.5
13	23.50	41.48	40	43	41.5
20	23.50	41.53	41	44	41.8
27	23.91	41.57	41½	44	42.2
Mar. 6	24.00	41.58	41½	44	42.3
13	24.00	41.57	41	44	42.0
20	24.00	42.01	41	44	42.1
27	24.00	42.00	41½	44	42.1
Apr. 3	24.00	42.01	41½	44	42.3
10	24.00	42.01	41	43½	42.2
17	24.00	42.03	41½	43½	42.3
24	24.00	42.01	41½	43½	42.3
May 1	24.00	41.63	41½	43	42.2
8	24.00	41.59	41½	43½	42.2
15	24.70	42.57	42	44	42.6
22	25.00	43.55	42½	45	43.6
29	25.88	44.56	43½	46	44.6
June 5	26.22	44.62	44½	46½	45.0
12	27.00	45.56	45	47	46.0
19	27.00	45.61	45½	48	46.6
26	27.00	45.06	45	47½	46.1
July 3	27.00	45.56	45	47½	46.0
10	27.00	45.60	45½	47½	46.2
17	27.00	45.53	45½	47	46.0
24	26.67	45.58	45½	47	46.0
31	26.50	45.52	45	47	45.9
Aug. 7	26.50	45.53	45	47	45.9
14	26.50	45.51	44½	46½	45.6
21	26.00	45.03	43½	46	45.1
28	26.00	44.51	43½	46	44.9
Sept. 4	26.00	44.53	43½	46	45.0
11	26.00	44.51	43½	46	44.7
18	25.50	44.50	43	46	44.7
25	25.50	44.05	43	45½	44.5
Oct. 2	25.50	44.03	43	45½	44.3
9	25.50	43.60	43	45	44.3
16	25.50	43.57	43	45½	44.2
23	25.50	43.57	42½	45¼	44.1
30	25.50	43.65	42½	45½	44.1

APPENDIX "C"—*Continued*

W.E.	Cda Live Choice Steers	Swift Avg. Selling Price* Choice Carc.	Cda Reported Tor. Choice Sale Price		
			Low	High	Avg.
Nov. 6/65	25.50	44.07	43½	45½	44.60
13	25.92	44.55	43½	46	44.60
20	26.41	45.56	44½	46½	45.30
27	26.50	46.53	44½	47½	46.10
Dec. 4	26.00	46.11	45	47½	46.30
11	26.77	46.07	44½	47½	46.30
18	26.87	46.09	44½	47½	46.20
25	26.75	46.07	44½	48	46.30
Jan. 1/66	27.00	47.04	45½	49	47.10
8	27.32	47.04	46½	49	47.60
15	27.50	47.05	46	49½	47.40
22	27.80	48.05	47½	51	48.70
29	28.21	49.75	49½	52	49.90
Feb. 5	28.85	50.03	48	52	50.20
12	28.50	48.71	47	51	48.70
19	28.80	48.49	47½	51	48.50
26	28.50	48.50	47	51	48.40
Mar. 5	28.85	48.40	47	51	48.40
12	28.73	48.43	47	51	48.40
19	28.24	47.97	46½	50	48.20
26	28.00	47.01	45½	49	47.70
Apr. 2	28.00	46.59	46	49	47.30
9	28.00	46.55	46	49	47.20
16	27.78	47.02	45½	49	47.00
23	26.87	45.31	45	48	46.10
30	26.90	45.52	44½	48	45.80
May 7	26.80	45.51	44½	48	45.80
14	27.00	45.58	44½	47½	45.80
21	26.79	45.56	44½	47½	45.80
28	26.75	45.54	45	47½	46.00
June 4	26.50	45.50	45	47½	45.90
11	26.40	45.46	44½	46½	45.50
18	26.00	44.64	44½	46	45.30
25	26.00	44.56	44	46	45.10
July 2	25.32	43.62	43½	45½	44.50
9	25.45	43.27	43½	46	44.30
16	25.50	43.77	44	46	45.00
23	25.50	44.62	44	47	45.70
30	26.00	45.63	45½	47	46.20
Aug. 6	25.50	45.76	45½	47	46.20
13	25.50	45.49	45	46½	45.60
20	25.50	44.59	44½	46½	45.30
27	25.75	45.16	44½	46½	45.30
Sept. 3	26.86	46.49	46	49	48.20
10	26.50	46.07	47½	50	48.30
17	27.36	47.09	47½	50	48.30
23	27.92	48.06	48	50	48.80
Oct. 1	28.00	48.16	48	50	48.80
8	27.88	47.93	47½	50	48.20
15	27.75	47.54	46½	50	47.60

* Delivered Store Door Chain Stores, Toronto

APPENDIX "D-1"

SWIFT

Page 1

Swift Fresh Pork Selling Prices
Delivered Chain Stores—Toronto
Period W/E Nov. 7/64–Oct. 29/66

W.E.	Price Loins	Price N.Y. Shoulders
Nov. 7 1964	50	31
14	50	31
21	50	30
28	50	31
Dec. 5	49	30½
12	49	32
19	50	32
26	48	32
Jan. 2 1965	47	32
9	47	32
16	48	32
23	47	32
30	48	32
Feb. 6	49	33
13	49	35
20	50	36
27	49	35
Mar. 6	49	35
13	48	35
20	48	35
27	47	34
Apr. 3	47	34
10	46	34
17	45	33½
24	45½	33
May 1	45	33
8	45½	33½
15	45½	33
22	47	33
29	49	33½
June 5	51	35
12	57	38½
19	57½	38½
26	61	40
July 3	60½	42
10	60	41
17	58	40
24	57	40
31	58	40
Aug. 7	59	40
14	58	41
21	58	41
28	59	41
Sept. 4	58	40
11	58	40
18	58	40
25	58	40
Oct. 2	59	41
9	64	43
16	65	45
23	67	47
30	67	48

W.E.	Price Loins	Price N.Y. Shoulders
Nov. 6	66	46
13	64	46
20	64½	47
27	65	48
Dec. 4	65	49
11	65	52
18	65	53
25	64	53
Jan. 1 1966	63½	53
8	64	53
15	63	53
22	63½	53
29	65	55
Feb. 5	66	54½
12	66	54½
19	66½	55
26	66	56
Mar. 5	65	55
12	61½	54
19	58	50
26	55½	46
Apr. 2	54½	43½
9	54½	41
16	52	40
23	52	40
30	52	40
May 7	52	39½
14	52	40
21	56	42
28	64½	47
June 4	64½	47
11	64	47
18	63½	46
25	64	47
July 2	63½	46½
9	63½	46½
16	62	45
23	62½	45½
30	63	46½
Aug. 6	63	46
13	63	47
20	65	47½
27	62½	48
Sept. 3	62	47
10	62½	47
17	64½	47
24	67	47
Oct. 1	67	47
8	66½	46½
15	66	46½
22	66	46
29	65	46½

APPENDIX "E"

SWIFT

Page 1

RELATION HOG PRICES TO
CERTAIN WHOLESALE PORK CUT PRICES AND PROCESSED
PORK SELLING PRICES
Period—Nov/64–Oct/66

TORONTO AREA—STORE DOOR—CHAINS

Weeks	O.H.P. Wkly. Gr A Avg	Green Bellies 8/12	Premium 1# Sliced Bacon	Green Hams 16 Dn	F.C.Pt. Sknd Hams	Green Picnics Hckls	Smoked Hckls Picnics	Green Boston Butts	S.P. Cryo Cottage
1964									
Nov. 1......	26.79	31	N/A	40	N/A	28	N/A	34	N/A
2......	26.91	31	,,	40	,,	29	,,	34	,,
3......	27.06	30½	,,	40	,,	29	,,	34	,,
4......	27.70	29½	,,	40½	,,	29	,,	34½	,,
5......	27.75	29½	,,	42	,,	30½	,,	35	,,
Dec. 1......	27.47	29½	,,	41	,,	30	,,	34½	,,
2......	26.61	29½	,,	40½	,,	29	,,	34½	,,
3......	26.87	29½	,,	41	,,	29	,,	33½	,,
4......	62.52	29½	62	41	50½	28	37	32½	44
1965									
Jan. 1......	26.43	29½	62	40	50½	28	36	32½	44
2......	26.88	30	62	40½	50½	27½	36	33	44
3......	28.08	30	62	42	51½	29	37	34	44
4......	27.77	32	63	42	51½	29	37	35	44
Feb. 1......	28.66	33	64	42	50½	29½	37	37	45½
2......	28.31	33	64	42	50½	29½	37	38	47
3......	27.26	33½	64	42	50½	29	37	37½	48
4......	27.86	33½	64	42	50½	29	37	37	49
5......	27.35	33	64	42	50½	28¼	37	36	49
Mar. 1......	27.36	34	65	43	50½	28½	37	36½	49
2......	27.23	33	65	43½	50½	28½	37	36	49
3......	27.83	32½	65	44½	52½	29	37	36	49
4......	27.91	32½	65	43½	52½	29	38	36	49
Apr. 1......	27.72	32½	65	43	51½	29	40	36	49
2......	27.22	33½	65	42½	51½	29	38	36	49
3......	27.52	35	65	43	51½	28½	38	35½	49
4......	27.94	36¾	65	43	51½	28½	37	35½	49
May 1......	28.74	36½	67	43½	51½	29	39	36	49
2......	29.71	37	67	44	52½	29½	39	36	49
3......	30.60	39¾	68½	46	55½	31½	39	37	47
4......	31.72	40	71	48	56½	33	40	39½	47
5......	32.59	40½	75	48½	59½	32	40	39½	48½
June 1......	34.25	42	78	50	62	32	43	40½	51
2......	34.87	44½	81½	51	63	32	43	42	53
3......	35.99	46	83	52	63	32	44	44	54
4......	35.64	45	83	52	64	32	44	43½	56
July 1......	35.18	47	83	52	64	32	43	43½	56
2......	35.97	49½	83	52	64	32	43	43	56
3......	36.38	51	83	52½	63	33	43	43½	56
4......	36.41	52	81	52½	62	34	43	45	56
Aug. 1......	35.86	52½	81	52½	62	35	46	45	56½
2......	36.03	54	84	52½	61	34½	46	46	56½
3......	36.64	54	84	52	60	34	45	45	58
4......	37.00	52	87	51	60	34	43½	44	58
5......	36.71	48	84	49	58	34	43½	43½	58
Sept. 1......	36.46	48	84	48	58	34	42½	44	58
2......	36.28	49	82	48	57	34½	42½	46	58
3......	36.77	51	82	48	58	35½	44½	47	58
4......	37.21	49	83	48	58	36	45	48	58

SWIFT

Page 2

RELATION HOG PRICES TO
CERTAIN WHOLESALE PORK CUT PRICES AND PROCESSED
PORK SELLING PRICES
Period—Nov/64–Oct/66

TORONTO AREA—STORE DOOR—CHAINS

Weeks	O.H.P. Wkly. Gr A Avg	Green Bellies 8/12	Premium 1# Sliced Bacon	Green Hams 16 Dn	F.C.Pt. Sknd Hams	Green Picnics Hckls	Smoked Hckls Picnics	Green Boston Butts	S.P. Cryo Cottage
Oct. 1......	36.66	48	84	48	58	38	48	49	60
2......	35.89	48	85	49	58	38½	48	50	62
3......	35.40	47	84	49	59	38	48	50	62
4......	35.15	47½	84	47½	57½	39	50	50	62
Nov. 1......	35.87	46	82	51	62	41	50	50	61
2......	36.78	46	81	55	67½	41½	51	53	61
3......	37.89	47	81	56	70	44½	53	56	62
4......	38.80	50	81	58	71	45	56	56½	64
5......	40.07	56	85	60	71½	47	57	56½	69½
Dec. 1......	41.96	53	91	62	72	45	58	55	69½
2......	41.56	53	91	61	72	43	56	53	70½
3......	41.43	53	91	60	72	43	55	54	69
4......	42.23	53	91	59½	75	43	54	53	69
1966									
Jan. 1......	41.43	53	91	60	75	41½	53	51½	67
2......	42.61	53½	90	60	75	41½	53	51½	66
3......	42.98	54	87	61	77	43	54	53	65
4......	43.03	54	89	62	75	45	56	55	68
Feb. 1......	43.96	55	99	62½	75	48	57	58	70
2......	43.82	55	99	62½	75	48	57½	58	71½
3......	43.06	53½	95	62	75	48½	58	58	72
4......	41.14	53	95	61	73	48	57	55	72
5......	39.87	51	100	58½	71	48	57	55	70
Mar. 1......	37.05	47	99	56	67	43	54	52	68
2......	34.51	44	96	52	67	40	53	49	66
3......	34.15	43	90	50	67	39	50	48	63
4......	34.20	44	79	48	64	35	50	39½	61
Apr. 1......	33.11	47½	80	45	60	35	48	40	56
2......	32.90	48	80	45	61	36	48	41	53
3......	32.39	48	88	46	60	37	49	41½	51
4......	32.47	47	88	47	61	37	49	41	53
May 1......	34.31	47	88	47	61	38	48	41½	55
2......	37.37	49	86	50	61	40½A	51	44	54
3......	37.53	50½	88	51	61	41	52	45	57½
4......	37.60	54	89	51	63	42½	53	46	57½
5......	37.86	54	93	50	63	42	53	46	57½
June 1......	38.27	54½A	93	49½	63	42	53	47	58½
2......	38.24	54	93	48½	63	42	53	49	59½
3......	38.45	53	91	48	61	40½	53	49	60½
4......	37.63	52	91	47	61	40	53	49	61½
July 1......	35.55	51	91	47½	62	38	53	49	61½
2......	34.80	51	91	49	62	37	53	49	61½
3......	34.43	51	92	51	64	37	53	51	63½
4......	34.69	52	94	51	65	36	53	53	66½
Aug. 1......	33.55	56	95	51	66	36½A	53	56	68½
2......	33.87	57½A	98	52	66	37	54	57	73½
3......	33.47	57	104	51	67	36	54	57	73½
4......	33.67	55	103	46½A	67	35½A	54	55	73½
5......	33.86	53	103	45	67	35	51	55½A	73½
Sept. 1......	33.78	54	103	45	67	35	51	55	73½
2......	33.52	54½A	103	46	67	36	51	55	73½
3......	33.33	53	103	46½	63	37½A	51	54½	71
4......	33.39	50½A	98	47½A	63	39	53	52½	71
Oct. 1......	34.00	50	98	47½A	63	39½A	53	51½A	68
2......	33.66	49	94	49	64	41	54	52	67
3......	33.29	47	94	48	63	41	54	49	67
4......	33.78	45	93	47	63	39	53	46	67

—Upon resuming at 3 p.m.

Co-Chairman Mr. BASFORD: Honourable senators, and members of the House of Commons, this afternoon we have with us witnesses from the Canada Packers Limited of Toronto. Mr. W. F. McLean, President of the Company, is on my left and next to him is Dr. G. F. Clark, a Vice-President of the company.

Mr. W. F. McLean, President, Canada Packers Limited: Mr. Chairman, honourable members of the Senate and members of the House of Commons, I would like, if I may, to read through this brief rather quickly and stop at certain points and refer to some of the exhibits, merely for the purpose of trying to make it easier for you to find the figures you wish to find.

Canada Packers Limited, a Canadian-owned company, is a processor of meat and meat products, poultry, vegetable oils, shortenings and margarines, canned and frozen vegetables, peanut butter, gelatine, dairy products, animal feeds, chemical fertilizers, soaps and detergents, leather, organic chemicals, bulk pharmaceuticals and fine chemicals. The company also operates public cold storages, a bag manufacturing plant, and a foreign trade division with offices in Toronto, New York, Los Angeles, London, England, and Hamburg, Germany.

Exhibit No. 1 is a copy of the company's annual report for the fiscal year ended March 26, 1966.

Exhibit No. 2 is a five-year consolidated profit and loss statement for the company.

We can refer for a moment to Exhibit 2, the left-hand column, which represents the year 1966. This profit and loss statement is made up in a relatively conventional way, starting out with invoiced sales. Each of these figures is expressed in total dollars and as a percentage of the net sales. It starts with the invoice value of sales at $722 million. Then it gives the cost of livestock and all other raw products, $528 million; other costs; then it shows the profit and the deduction of interest of minority shareholders in profit of subsidiary companies; ending with the net profit for the year, $8,521,000. Below that, at the bottom of Exhibit No. 2, there is shown the return on investment (Capital investment equals depreciated fixed assets plus investments, plus working capital), at 9.7 per cent. This is not the total assets: The current liabilities have been deducted from that calculation. In fact, it is the capital plus surplus of the company, or very nearly that figure, because in fact we have no fixed debt. The figures are shown for each of the five years 1962 to 1966. The fiscal year ends on March 31 in each case, and this should have been marked on the sheet.

A little more than half of the company's total dollar sales are accounted for by products derived from livestock.

Exhibit No. 3 is a five-year profit and loss statement for Canada Packers' operations in products derived from livestock.

You will notice that this table runs in the opposite direction from that of Exhibit No. 2. I apologize for that: It was due either to bad proof reading or our Chinese accountant. You will notice that the year 1966 is in the right hand column.

Referring to Exhibit 3, the figures there are given in cents per pound in each case, meaning cents per pound of sales weight. For instance, the 29.64¢ is the amount paid for livestock, total dollars paid, divided by the total sales weight.

The statement shows the results of the company's operations in all meat products and meat by-products (such as hides, tallow, etc.) resulting from the slaughtering and processing of livestock.

Profits after tax from these operations expressed as cents per pound of product sold and as a percentage of dollar sales have been as follows:

	Cents Per Pound	Percentage of Dollar Sales
	¢	%
1962	0.162	0.47
1963	0.161	0.43
1964	0.096	0.27
1965	0.217	0.64
1966	0.191	0.52

Because of the difficulty of identifying and separating fixed assets employed in this section of our business, it is not possible for us to make a precise calculation of the return on investment in the livestock section of the business. However, approximate calculations show that the return on investment in this section of our business is less than the return on investment for the total Company, which is shown for five years in Exhibit No. 2.

You will note from Exhibit No. 3 that the cost of raw materials accounts for a large percentage of the dollar sales. For example, in 1965 the cost of raw materials accounted for 77.0% of the dollar sales; all expenses accounted for 21.7% of dollar sales, and profit before tax accounted for 1.3% of dollar sales.

One of the characteristics of the meat packing business is that the ratio of expenses to profit is unusually high. For example, in the figures just mentioned, total expenses amount to sixteen and a half times the profit before tax. The operating significance of this is that control of expenses and efficiency of operation is of great importance and is a primary management consideration. A small percentage increase in expenses can produce a very large percentage decrease in profit, whereas careful control of expenses and efficiency of operation offers the opportunity of a satisfactory return on investment.

The total wage and salary cost of the livestock section was about $34.9 million, or 3.97¢ per pound, in 1962 and $42.0 million, or 4.12¢ per pound, in 1966.

These figures indicate that wage and salary expense per pound increased by 3.8% in the four-year period.

During that same period, wage rates increased by about 13.0%. This indicates an improvement in productivity (that is pounds of product per person employed) of about 11.0% in four years. This figure is not precise because the product-mix was not exactly the same in the two years concerned. Since there has been a continuing tendency towards a higher degree of processing, the actual productivity improvement on equivalent form of product would be higher than this estimate.

We believe that the committee is interested in the cost of advertising and packaging.

ADVERTISING

Canada Packers' total expenditures for advertising of all the company's products were:

	Total Company		Products Derived from Livestock	
	Expenditure	Expenditure of Sales as Percentage %	Expenditure	Expenditure of Sales as Percentage %
Fiscal 1963	$ 4,581,890	0.78	$ 1,191,127	0.36
" 1964	$ 4,532,846	0.76	$ 1,363,921	0.41
" 1965	$ 4,480,359	0.73	$ 1,531,283	0.44
" 1966	$ 4,745,604	0.68	$ 1,490,121	0.38

These figures on advertising include advertising and sales promotion of all forms. This was not clearly stated in our brief but should have been. In other words, they include all media advertising, store promotions and so on.

The advertising expenditure per pound for some meat products is given in the following table:

	Advertising Cost Per Pound Fiscal 1963	Fiscal 1966
Lard	0.36¢	0.51¢
Smoked Hams	1.15	0.93
Bacon	0.42	0.86
Total Smoked Meats	0.50	0.64
Total Cooked Meats	0.51	0.61

PACKAGING

The following table gives a history of the cost of packaging materials for a number of meat products; Looking at the table "Cost of Consumer Packaging Materials—Toronto," you can see the series of figures from 1962 to 1966 giving costs for saran wrap and board, or flat package, for Maple Leaf Weiners.

COST OF CONSUMER PACKAGING MATERIALS—TORONTO

	Fiscal Years					
	1962	1963	1964	1965	1966	Current
	¢	¢	¢	¢	¢	¢
Maple Leaf Wieners—1 lb.						
Saran Wrap & Board	1.478	1.518	1.518	1.553	1.748	
Vacuum Package						1.770
Maple Leaf Bologna—1 lb.						
Saran Wrap & Board	1.726	1.657	1.677	1.854	1.950	1.951
Maple Leaf Bacon—1 lb.						
Saran Wrap & Board	2.996	3.026	2.841	2.841	2.991	
Vacuum Package						4.390
Maple Leaf Cooked Meats—6 oz.						
Vacuum Package & Labels	1.202	1.196	1.206	1.224	1.318	1.318
Equivalent Cost per lb.	3.205	3.189	3.215	3.263	3.514	3.514

The figure in the last column, 1.770 cents, is the current price of the vacuum package. There is no series for that package, since it has only now come into current use.

You can see some history of the cost of packages in this group of products.

BEEF

Exhibit No. 4 shows the approximate disposition of an average beef animal in Canada. Most beef is sold fresh and most of that in carcass form. In recent years there has been an increase in the proportion sold in the form of fresh wholesale cuts.

Just looking at Exhibit No. 4, I want to be quite clear that this does not represent any one beef animal. This is our estimate of the composite average of all grades of animals in Canada. You can see from the chart that the average live animal weighs 965 pounds. This produces an average carcass of 490 pounds, cold dressed weight. Of this amount, 321 pounds are sold as carcass beef.

I want to be clear again that we are not cutting out 321 pounds of each carcass and selling it as carcass beef. This is the average of all animals sold as carcass beef. One animal might be sold as carcass beef and another animal might be cut up and sold as something else.

Now, beef cuts represent approximately 88 pounds, of which 84 pounds are fresh cuts and 3½ pounds are frozen cuts. These frozen cuts are frozen for contract sales or they are frozen for later sale. There is a small amount of beef, about three pounds, which is used for salt-cured beef.

On the other side of the chart you can see that about 78 pounds of beef goes for boning, giving about 54 pounds of boneless beef, 45½ of fresh and 8½ pounds of frozen beef. Out of this quantity 45 1/2 pounds are sold fresh and some goes for various purposes such as hamburg, and so on.

There is also wholesale boneless beef, some of which is sold fresh, some which goes for canned beef and some which goes for cooked meats.

Exhibit No. 5 reporduces a typical beef cost sheet for February, 1966, to illustrate the cost of processing a live animal from receiving it through to delivery of the beef carcass to the purchaser.

Also shown is a list of by-products produced, the expense to process these by-products to a saleable form, and the return from their sale.

Just going through this exhibit quickly, there is always some percentage of carcasses which are condemned, and this is amortized over all of the carcasses.

Mr. URIE: This is by the Department of Agriculture, you mean?

Mr. McLEAN: Yes, by the Health of Animals Division. If you look at the chart in the left-hand side you will see that the live animal weighs 1,050 pounds; the price is 28.72 cents per pound and the cost per animal is $301.56. The buying expense is 60 cents; the stock pen expense is 43 cents; the slaughter labour is $1.80; the allowance for condemnation is 43 cents, for a total of $304.82.

Below that you can see that the net returns from by-products produced is $29.51, so that the cost of a 598½ pound carcass will be $275.31.

If you turn the page to the second half of this exhibit, you will see where the $29.51—by-product credit—comes from. In the left column is a list of the by-products, divided in this case into edible and inedible products. The first column shows the weight of each product. The next is the selling price at this date February, 1966. The next column shows our selling cost and our package cost, and the following column our processing cost. For example, when a liver is removed from a beef carcass it must be transported to a chilling room, transported to the dock and loaded. The sum of those three columns gives the cost of doing that.

Then if you deduct the sum of those three columns from the selling price you will get our net return for the liver. The selling price on the left, in the case of liver, is 35 cents, if you subtract 1.18¢ and 1.20¢ and 3.45¢ you get 29.17¢

per pound which is the net value in cents per pound, and since there are $10\frac{1}{2}$ pounds in a liver that is 29.17¢ times 10.5, which is $3.05 per head. The sum of all those per head values for all by-products comes to $29.51, which is the figure shown on the cost sheet for by-product credits. This is deducted from $304.82 to arrive at the $275.31. So moving over to the column on the right-hand side of the cost sheet you now have a carcass weighing 598 pounds at 46 cents per pound with a total value of $275.31.

Then is added cooler labour, 28 cents per pound and a total of $1.68 per carcass. Then follows services, maintenance, supplies, plant expense, loading, municipal taxes, and office, 90 cents per pound, and the total of $5.39 per head. Services include such things as the boiler room, refrigeration plant, janitor service. Maintenance is obvious. Supplies would be things like shrouds for the beef, and so on. Plant expense, loading, municipal taxes, office, are, I think, fairly obvious. That amounts to $5.39 per carcass. Fixed charges are $2.39. The total cost is $284.77 per carcass. Selling and delivering cost, that is, in the Toronto area, is $1.05 cents per pound or a total of $6.28 for a carcass. Therefore, the total cost of carcass including selling and delivery is $291.05. That carcass quoted on the wholesale market at Toronto is valued at $292.96.

The net return from the by-products on a choice steer is a little greater than the expense incurred in processing and selling the beef carcass, so that the net cost of the carcass to the purchaser is actually less than the cost of the live animal.

Exhibit No. 6 compares the market prices of choice live steers with the wholesale price for choice (Red Brand) steer beef carcasses from January 1962 to July 1966. The price relationship is apparent. There is some variation in the price relationship. This is to be expected because:

(1) The live grade is not precisely related to the carcass grade. There is always a percentage of steers which are graded "Choice" alive that produce carcasses of lower than "Choice" (Red Brand) quality. This percentage has seasonal variation.

(2) By-products are sold to both the export and domestic market. By-product prices are therefore determined by world supply and demand rather than domestic supply and demand. By-product prices move independently of live cattle prices. Exhibit Nos. 7, 8, 9 and 10 show a five-year record of the price of edible and inedible tallow, dry rendered tankage and heavy native steer hides. In Exhibit No. 5 the value of the inedible by-products is in February 1966, $17.16 per head. The value in October 1962 was $14.50 per head. October 1966 was $13.54 per head.

(3) Finally the packer may make a profit or a loss in varying degrees. The influences of supply and demand make it inevitable that there will be periods when losses will be incurred.

By careful attention to overall efficiency and because of increasing volume, we have kept the expenses of processing cattle under reasonable control.

From 1962 to 1966 the average processing expenses in our plants increased from 1.901 cents per pound to 1.947 cents per pound.

PORK

Exhibit No. 11 shows the approximate disposition of an average hog in Canada. You will note that from an average carcass weighing about 156 pounds, about 52 pounds is sold as fresh pork, about 49 pounds is sold as cured meats in various forms and about 13 pounds is incorporated in sausages, wieners, other cooked meats and canned meats. The letters SP mean not smoked. They originally stood for sweet pickle. Each of the product groups shown on this exhibit represents a substantial variety of products and the actual number of items derived from pork offered for sale is very large. For example, the block

marked 'Smoked Meats' represents a large number of individual products such as smoked bone-in hams, smoked boneless hams, smoked picnics, smoked butts, piece side bacon, sliced side bacon, piece back and sliced back bacon.

In order to trace the relationship between the price of hogs and the price of various pork products, it is necessary to describe briefly the costing system used by the meat packer. This is commonly known as a joint-cost system.

The packer buys a whole animal and sells the fresh meats, processed meats, cooked meats, canned meats and byproducts produced from it.

He knows the cost he has incurred in buying and processing the animal and he tries to sell the total of the meat products and by-products produced to give him a total return greater than the cost of the animal and the costs incurred in processing it.

It is important to recognize that there is no way of determining the cost of any one product unless the return for all the other products is estimated or known.

The packer must sell all of the product. He must therefore adjust the relative selling prices of different products so that all of the product can be sold in equivalent quantities and try to do this at such a selling price to allow him to recover his costs and make a profit.

The relative value of one product to another is determined by the relative market demand (which continually varies) and the restriction that the products must be sold in the same relative volume as they arise from the pig.

The total return from the sale of all the products determines the price which the packer can pay for the live animal and still make a profit.

The above explanation is oversimplified because there are many multiple choices which can be made about the form of the finished product. For example, the picnic cut can be sold fresh on the brokers' wholesale market, fresh to the retail trade, cured as an S.P. picnic, smoked as a smoked picnic, canned and cooked as a canned picnic, and boned, ground and canned for use in luncheon meat.

The first step in processing a hog carcass is to break the carcass into "so-called" primal cuts. These consist of (from each hog):

Name of Cut	Percentage of Carcass Weight %	(156 lbs/carcass)
2 Picnics	8.3	
2 Butts	7.9	
2 Loins	14.4	
2 Bellies	13.2	
2 Hams	20.9	
	64.7	(101 lbs of primal cuts)

These primal cuts are pretty well standard in the industry and are widely bought and sold between processors and packers on the so-called brokers' wholesale market.

Exhibit No. 12 is a cost sheet showing the expenses involved in processing a live pig to the stage of primal pork cuts and the distribution of the cost among the primal cuts. The figures shown are actual values and expenses for the week ended June 11th, 1966. The expenses on this sheet are factory expenses and include no office, selling or administrative charges.

I call your attention to a correction: On Exhibit No. 12, sheet 2, at the bottom, the figure 5.08 should be 50.8.

On Exhibit 12, on the right hand side, for comparison purposes we give the quoted value of primal cuts on brokers' wholesale market. In other words, this is

what primal cuts were being offered for at that time. The table shows that in fact if you rebuild the hog from the wholesale market you arrive at a value of $51.89, whereas the cost to produce these primal cuts from the hog at that time was $53.45.

Also shown on Exhibit No. 12 are the quoted brokers' wholesale market prices for the primal cuts.

You will note that the total cost of 101 pounds of primal cuts from a hog was $53.45 and the quoted value of the same primal cuts on the wholesale market was $51.89.

In fact, if these cuts had been sold on the wholesale market, they would have been wrapped—some of them would have been frozen, and they would have to be delivered to a local storage or plant.

As well as this, administrative and office overhead would have to be added to their cost.

The total cost of these charges is about 2.5¢ per pound. Therefore, the return from these pork cuts, had they been sold on the wholesale market, would have been approximately $49.39, whereas their cost to produce from the pig was $53.45—a loss of $4.06 on the primal cuts resulting from one hog.

Canada Packers does not, of course, sell all of the primal cuts on the wholesale market. We are both buyers and sellers of primal cuts on the wholesale market in different parts of the country, and at different times. However, the brokers' wholesale market represents a very substantial volume of trading in total, and is a readily available source of accurate market price information.

There are a good many meat packing plants in Canada which produce more primal pork cuts than they use in their meat processing operation. There are also a good many meat processing plants in Canada which either do not produce primal cuts at all, but purchase them on the brokers' wholesale market, or which produce fewer primal pork cuts than they ned for their processing operation. For example, our Toronto plant processing operation is supplied with about 75 per cent of its primal cuts from its own slaughtering operation and buys the remaining 25 per cent of its requirements on the wholesale market.

Thus the quotations for primal cuts on the brokers' wholesale markets serve as a bench-mark to compare the market value of the primal cuts from a hog with the price paid for hogs.

We have made this comparison over a period of time. For one week in each month from October, 1963 to July, 1966 we have taken from our Toronto plant records the price paid for hogs and have added to this the factory expenses of killing and cutting, and deducted the by-product credits to arrive at the factory cost of the primal cuts from those hogs. For the same weeks we have taken the quotations of the brokers' wholesale market for the same primal cuts and have combined them to show the market value of the primal cuts from a hog. The month-by-month comparison of these two calculations is shown on the chart which is Exhibit No. 13.

In calculating the cost of primal cuts from the hog, no expenses have been added for administrative overhead, selling or other additional expense necessary to sell the cuts on the brokers' wholesale market. Therefore, the figures for the cost of primal cuts from the hog and the value of primal cuts on the wholesale market are not on an exactly equivalent basis, but they serve to compare the cost of cuts with the market value of cuts on a relative basis for a period of time.

The chart shows that the hog market is closely related to the market value of primal pork cuts.

You will note that in the latter part of 1965 and during 1966, the market value of primal cuts declined relative to the price paid for hogs.

This trend was caused by a relative shortage of hogs in Canada and, at the same time, a relative shortage and high hog price in the United States, so

Canadian demand could not be supplied by American product. This resulted in severe competition among packers for the purchase of hogs and, therefore, a high price for hogs. The consumer demand for pork products did not warrant these high hog prices and the meat packers were unable to recoup the cost of the hogs plus expenses. This resulted in a substantial loss on pork products during this period. In the case of our Company, pork products showed a loss of well over $1.50 per hog during parts of this period of time. This compares with a profit of about 60¢ per hog in fiscal 1963, which was the most profitable year for pork products in the period covered by Exhibit No. 13.

We have shown the relation between the market price of hogs and the market price for wholesale primal pork cuts.

Any individual primal cut is not as closely related to the market price of hogs since the relative value among the primal cuts varies from time to time according to market demand and the supply of the cut in question.

We have available charts of the wholesale market for each primal cut for the period from 1960 to 1966. These charts represent considerable detail and we are hesitant to press upon this committee information which may not be of much use to them, but if you wish copies of these we will be glad to supply them.

As well as the influence of Canadian supply and demand, the price of any individual primal cut is affected by United States' supply and demand for that cut. There is a substantial Canadian import and export trade (mostly with the United States) in frozen pork cuts and sometimes in pork carcasses. For example, in 1965 Canada exported 36.5 million pounds of hams and imported 2.2 million pounds of bellies and 4.2 million pounds of butts and picnics. In 1963 Canada exported 18.0 million pounds of hams and imported 10.0 million pounds of bellies, 12.0 million pounds of butts and picnics and almost 25.0 million pounds of hog carcasses.

The duty on pork products from the United States is 1.25¢ per pound and the freight to the Toronto area is in the range of 2.50¢ per pound.

Therefore, the much larger American market in pork products puts a floor or a ceiling on our market for primal cuts and hog carcasses, and thus affects the Canadian hog price from time to time.

We have demonstrated that the composite value of primal cuts is related to the market price of hogs. Within the limits of time, it is not possible to trace each primal cut through to its many final products. However, as an example, we have chosen the belly cut and wish to follow it through to packaged sliced bacon for you.

The belly cut is very suitable for illustration because it results in a limited number of finished products and is, therefore, relatively easy to follow through the processing and packaging operations. Also, in the last few years, there has been a very strong demand for bacon in Canada and Canada has been a substantial net importer of American bellies for the manufacture of sliced bacon. This has meant that the wholesale prices of bellies has been strong compared to most other pork cuts and bellies have absorbed a relatively greater share of the increase in the price of hogs than most other primal pork cuts during the last few years.

BACON

Side bacon is produced from the primal belly cut. The belly is derinded, cured, smoked, chilled, sliced and packaged. These processes are surprisingly complex and require careful control and substantial technical know-how to produce a quality product. The investment in plant and equipment amounts to approximately five hundred to six hundred thousand dollars to produce 50,000 pounds of sliced bacon per week.

I might say that this figure probably needs a little explanation. It is the bare cost, if you already have all of the services available, such as a boiler house, a

steam supply, refrigeration and the rest. It would be the cost of putting in the sliced bacon department in an existing plant, so to speak.

The whole process from a fresh or frozen belly, then, requires about eight or nine days.

Exhibit No. 14 shows a typical cost sheet for producing finished bacon in one-pound vacuum packages from a fresh "Number 1" commercially trimmed belly.

If we can turn to Exhibit 14 for a moment we can see the cost of processing a belly:

COST OF PROCESSING BELLY

	Weight Lb.	Price per Lb.	Cost per Belly
Fresh Belly	10.30	49.00¢	$5.05
Less Rind	1.24	8.65	.11
Derinded Belly	9.06		$4.94
Gain in Cure	.82		
Cured Belly	9.88		
Curing Labour		0.59¢	$0.06
Other Curing Expenses		1.62	0.16
Smoking Labour		0.40	0.04
Other Smoking Expenses		0.99	0.10
			$5.30
Smoking Shrink	0.79		
Cured & Smoked Belly	9.09		$5.30
Chilling Shrink	0.18		
Piece Bacon	8.91 lb.	59.48¢	$5.30

Now, on the other side of the chart you can see the cost of producing sliced bacon.

COST OF PRODUCING SLICED BACON

	Weight Lb.	Price per Lb.	Cost per Belly
Piece Bacon	8.91	59.48¢	$5.30
Labour for Slicing			0.29
Packages			0.44
Materials			0.01
Expense for Services— Maintenance, Supervision and Office			0.45
Advertising			0.07
Fixed Charges			0.15
Selling & Delivery			0.13
			$6.84
Product Produced:			
Maple Leaf Bacon	6.24 lb.		
Devon Bacon	1.60 lb.		
Jubilee Bacon	0.62 lb.		
Bacon Ends & Trimmings	0.27 lb.		
	8.73 lb.		

At the bottom of the page you will see a summary of expenses in the whole process all expressed on the basis of the finished weight.

COST PER LB. OF FINISHED PRODUCT

		¢/Lb. of Finished Product	Per Belly
Cost of Fresh Derinded Belly		56.5¢	$4.94
Expenses: Labour	4.5¢		
Other Expenses	8.3*		
Packages	5.0		
Advertising	0.8		
Fixed Charges	1.7		
Selling & Delivery	1.5	21.8¢	1.90
Total Cost:		78.3¢/lb.	$6.84

* Includes approx. 2¢/lb. labour content in services such as maintenance, steam, etc.

From an average Number 1 belly weighing 10.30 pounds, we produce a derinded side weighing 9.06 pounds. From this we produce a cured and smoked side weighing 8.91 pounds.

This cured and smoked side yields:

70% or 6.24 lbs. of Maple Leaf bacon in 1 lb. vacuum package
18% or 1.60 lbs. of Devon bacon in 1 lb. vacuum package
7% or 0.62 lbs of Jubilee bacon in 1 lb. cellophane wrapping
3% or 0.27 lbs. of bacon trimmings in 60 lb. cartons, and those total

98% or 8.73 lbs. The remainder is lost.

The cost of production and packaging is $1.90 per belly, or 21.8¢ per pound of finished product weight. The value of the belly less rind credit is $4.94, or 56.6¢ per pound of finished product weight. The assessment of costs to the products produced is another application of joint costing. The total cost is $6.84 per belly. Our estimated return is:

0.27 lb. of Bacon Trimmings at 26.05¢ per lb. returning	$ 0.07
0.62 lb. of Jubilee Bacon at 48.74¢ per lb. returning	0.30
1.60 lb. of Devon Bacon at 77.33¢ per lb. returning	1.24
	$1.61

The balance of the cost, ($6.84—$1.61) or $5.23, must be borne by 6.24 pounds of Maple Leaf bacon, which represents 83.9¢ per pound. The cost of producing bacon in one-pound saran wrapped packages instead of vacuum packages would have been 1.4¢ per pound less than this,—that is 82.5¢. The cost of producing bacon in one-half pound vacuum packages instead of one's would have been 4.5¢ per pound greater, or 88.4¢ per pound.

Exhibit No. 15 charts the following:

(a) The monthly wholesale price of side bacon as reported by D.B.S., from 1962 to July, 1966;

(b) Canada Packers' actual average return from Ontario chain stores for Maple Leaf bacon, from June, 1964 to July, 1966;

(c) The brokers' wholesale belly market from 1962 to July, 1966;

(d) The Chicago quoted wholesale belly market for the same period.

You can see that (a) is expressed in the heavy line toward the top of the page on Exhibit No. 15; (b) is the finer line toward the top of the chart; (c) is the Toronto brokers' market, which is the top line toward the bottom of the page; and (d) is the bottom line on the page.

The difference between the bacon price and the belly price increases as the belly price rises. This is to be expected for two reasons:

(1) The yield of Maple Leaf and Devon bacon from a side weighing 10.30 pounds is 7.84 pounds, or 76 per cent. To produce one pound of bacon we use 1.32 pounds of commercial belly. An increase of 10 cents per pound in the cost of the belly increases the cost of the bacon by 13.2 cents per pound.

(2) Jubilee Bacon and Bacon Trimmings must be sold within a limited price range and this range is narrow compared to the fluctuations in the price of bellies.

The price of third grade bacon and trimmings, in other words, does not respond to the higher material cost in the same way that the higher quality product does.

To illustrate in more detail the relationship of the brokers' wholesale belly market with the price of bacon, Exhibit No. 16 shows the weekly prices for June, 1964 to July, 1966 of:

(a) The brokers' wholesale price of bellies;

(b) The Department of Agriculture record of the wholesale price of packaged bacon;

(c) Canada Packers' actual average return from Ontario chain stores for Maple Leaf bacon.

Just looking at Exhibit 16, the black line at the top of the page refers to the Toronto wholesale bacon, the red line is the Canada Packers average run from chains for Maple Leaf bacon. The line toward the bottom is the brokers' wholesale price of bellies.

There is considerably more fluctuation in the Canada Packers' realized return for bacon than in the belly market. This price fluctuation relates to throughput. Bacon selling prices are adjusted frequently (weekly and sometimes daily) to move all of the product being manufactured, for the product is perishable and must be sold. It is the average return that is important in determining the price the packer can pay for the belly.

I think there is one further remark I should make on the subject of fluctuation. What has been said is not the only reason. I should have included this in the written remarks here, but there is another reason why our average return apparently fluctuates more. We have no way of separating our figures without going back and analysing every invoice for both the half-pound and one-pound packages. So this average return is a mixture of sales of the two. The habit of the trade is to offer specials on bacon from time to time with various chain store accounts, and, for example, say your retail list price today was 90 cents, then we might offer a special at four cents below the retail list for a limited period.

When you offer a special, the trade in that particular merchant's store switches over almost entirely to one-pound packages from ordinarily a mixture of one-pound and half-pound packages, so that the chart shows some exaggeration, and this is an additional reason for the fluctuation.

Exhibit Nos. 17, 18 and 19 show the wholesale prices of various pork products compared to the price of grade A hogs. Exhibit No. 17 shows the Toronto wholesale dressed meats weekly average price and livestock weekly average price for cooked ham, whole, boiled; for smoked cottage roll, not fully

cooked; and for grade A hogs, dressed. Exhibit No. 18 shows Toronto wholesale dressed meats weekly average price and livestock weekly average price for hams, smoked, boneless, not fully cooked; for loin, fresh, regular trim; and for grade A hogs, dressed. Exhibit No. 19 shows the Toronto wholesale dressed meats weekly average price and livestock weekly average price for side bacon, rindless; for half-pound flat pack; for New York shoulder, fresh shankless; and for grade A hogs, dressed.

Between January 5, 1962 and January 7, 1966, hog prices increased from 26.45¢ per pound to 41.70¢ per pound. An increase in price of 15.25¢ per pound for the carcass which weighs on average 156 pounds, is equivalent to an increase in average price of 23.6¢ per pound for the primal cuts which weigh an average of 101 pounds. The products produced from 101 pounds of primal cuts would result in a shipped weight of final product of 80 to 85 pounds. The price rise for these products to offset the increased price of hogs would be in the order of 29 to 32¢ per pound.

Some actual increases in packers' selling prices between January 5, 1962 and January 7, 1966 were:

Fresh Shoulders	18.8¢
Fresh Loins	18.7¢
Bacon	32.7¢
Cooked Ham	33.6¢
Smoked Ham	31.9¢
Smoked Picnics	16.4¢
Smoked Cottage Rolls	19.8¢

It will be obvious that only in the two products, hams and bacon, was the consumer demand sufficient to at least recover the advance in costs.

Honourable members, if there is any further explanation of any of these figures or charts, that is what we are here for.

Co-Chairman Mr. BASFORD: Thank you, Mr. McLean, for a very comprehensive brief and for the various exhibits. The committee very much appreciates having such information.

Yes, Mr. Urie.

Mr. URIE: Thank you, Mr. Chairman. You have such a comprehensive brief, Mr. McLean, that it almost leaves me speechless. However, I do have a few questions, and I am sure the members of the committee will have more.

I wanted to deal, initially at least, with the corporate end of your company. You have a number of divisions; you have a number of subsidiaries, both in Canada and outside of Canada.

Mr. MCLEAN: Yes.

Mr. URIE: I wonder if you might be able to review those for the benefit of the committee.

Mr. MCLEAN: Yes. We operate, as you have seen on the first page of the brief, on a number of different businesses, and possibly the easiest way would be if I just leafed through these pages and told you what our operations are.

We have the major ones. The largest by all odds is the packing house division, which operates plants across Canada and sells all of our meat products, as well as some other grocery type products such as shortening and margarine, etc. Then we have our feed and fertilizer division—

Mr. URIE: Before you get to that, Mr. McLean, you have, as I understand, several other packers which are wholly owned by your company and whose sales I presume are in the consolidated figures?

Mr. MCLEAN: No, we only have one. Well, we purchased Calgary Packers, but Calgary Packers operates as a division of Canada Packers and in the

corporate sense is not a corporate entity. Calgary Packers sells products under its own brand names, but with that exception all of our meat products are sold under Canada Packers' brands.

Mr. URIE: So Wilsil is no longer—

Mr. MCLEAN: Wilsil no longer sells products under their own name. It is in fact now merely a custom killing operation. We kill cattle for others for a fee, and in fact we kill some for ourselves. Our Montreal Canada Packers plant kill their own hogs, but have their cattle slaughtered across the street at Wilsil.

Mr. URIE: Other than that there are no others?

Mr. MCLEAN: That is right. I am sorry, Hunnisett operate under their own name. I apologize for that omission. There are other corporate ones. For instance, we still hold the charter of the Harris abattoir, but it hasn't done anything for years.

Mr. URIE: So there are no others?

Mr. MCLEAN: Hunnisett is also a division and still operates under the style of Hunnisett, and deals in fresh beef only, and a few calves.

That takes care for the moment of the packing house division.

We have our feed and fertilizer division which operates across the country. The fertilizer division is in the east, in Ontario, Quebec and the Maritimes. The feed division operates throughout Canada with the exception that in British Columbia we either don't operate at all or we are so small you wouldn't notice us, I am not sure which.

We have our York Farms division which has a plant in Brantford, Ontario, and one in Sardis, which is near Chilliwack in the Fraser Valley. They manufacture canned vegetables, principally, and frozen vegetables.

Mr. SMITH: York Farms has no connection with York Trading?

Mr. MCLEAN: No. Then we have one other cannery called Alberta Canning, which is a division and in fact is operated by the management of York Farms division, but still sells some products under their own trade name. They operate a canning plant at Magrath, near Lethbridge.

Mr. URIE: Are their figures included in your consolidated figures?

Mr. MCLEAN: Yes. Everything I have mentioned is included in our consolidated figures.

Mr. URIE: Would you be able to supply figures for breakdowns, if necessary?

Mr. MCLEAN: Yes. We have a storage division which operates three storage plants, two in Toronto and one in Montreal. They are cold storage plants and dry storage plants.

Mr. URIE: Canneries?

Mr. MCLEAN: We have a division which was previously Canadian Vegetable Oils Processing Limited, in Hamilton, Ontario. They are now operated as a division, no longer as a separate corporate entity. They are crushers of soya beans and manufacturers of soya bean oil and soya bean meal.

In the poultry business, and this is slightly confusing, sometimes even to me, part of our business is principally operated by the packing house division. In other words, poultry is sold by the same sales force, and so on, and we have poultry plants which are operated by the management of the packing house division; but in fact we have two poultry plants in the Maritimes which are separate corporate entities.

Mr. URIE: What are their names?

Mr. MCLEAN: Canard Poultry Limited at Fort William, and Sussex Poultry.

Mr. URIE: Do you in addition have your own poultry farms?

Mr. McLEAN: No, we don't have any poultry farms as such. They do have poultry grown for them.

Mr. URIE: Under contract?

Mr. McLEAN: Yes. In the leather business, we have two leather companies, Collis Leather Co. Ltd. of Aurora, a subsidiary, which are tanners of calf skins, and Beardmore Company of Acton, tanners of heavy leather.

We have a company called Spruceleigh Farms, which is essentially part of our feed division. Spruceleigh Farms is an historical name, at a location near Brantford. In actual legal fact it is a subsidiary. It is operated, however, as part of the management set up by our feed division.

Then we have Feather Industries, in which we have a minority partner. It processes feathers and down for upholstery, such as pillows, and that sort of thing, and also manufactures foam rubber products. We kind of backed into that. We have the distributing organization. When foam rubber began to be a big factor, and began to replace feathers, and one thing and another, we decided we had better not let go entirely and decided to make foam rubber.

One other, called Industrial Bags, manufactures burlap bags and cotton bags, but not paper bags. There is a plant in Montreal and one in Vancouver.

We acquired about a year ago a packing plant, or a majority interest therein, in Australia, which is also consolidated in these figures; and we have offices at various places in connection with our foreign trade operation, some of which are, technically speaking, subsidiary companies, because they are incorporated in the country concerned. They exist in London under the name John Loudon and Company, also in England under the style of Canada Packers (United Kingdom) Limited; and in Hamburg, Germany, under the style—I am not sure whether this is accurate—G.M.B.H.

Mr. URIE: What about California?

Mr. McLEAN: William Davies in the United States. They have two businesses. We operate in a minor way in the American market. There is one feed manufacturing plant in Danville, Illinois, one in Georgia, and the incorporation William Davies owns the trading office which we operate in New York and in Los Angeles.

Mr. URIE: Feed trading?

Mr. McLEAN: No, no. Meat packing. This is merely a matter of convenience. All offices in the United States are under one organization. Canada Packers Inc. is a subsidiary of William Davies Inc.

Mr. URIE: That covers all your wholly owned subsidiaries?

Mr. McLEAN: I don't know that I have missed any.

Mr. URIE: In the case of your canneries and who produce your frozen foods, Canada Packers purchased all of their production?

Mr. McLEAN: In fact those canning companies are not separate legal entities. York Farms is a complete business in itself and has its own selling division.

Mr. URIE: Do you have minority interests in any canneries, any primary producers of any kind.

Mr. McLEAN: No canneries or primary producers that I have not already mentioned.

Mr. URIE: Do you have any investment in any retail chains, any wholesalers?

Mr. McLEAN: We have an investment in one retail chain. We have 562,000 shares of Dominion Stores Limited.

Mr. URIE: What does that represent in percentage, do you know?

Mr. McLEAN: In the range of 6.8 or 6.9.

Mr. URIE: Does your arrangement with Dominion Stores involve in any way the exclusive right to sell your products in their stores?

Mr. McLEAN: No, absolutely not. I was going to suggest that I wish it did.

Senator THORVALDSON: Are you on the board of Dominion Stores?

Mr. McLEAN: No. We have no more contact with Dominion Stores than really any other supplies.

Senator THORVALDSON: Have you any officers on the board?

Mr. McLEAN: A director of ours was a director of Dominion Stores. However, he happened to be the president or chairman, I have forgotten which, of Beardmore Leather, and we bought Beardmore many years ago. He was already a director of Dominion Stores at that time. As a matter of interest, the Dominion Stores investment is rather an historical curiosity. It arose from the holding of one of our predecessor companies, the William Davies Company, who once ran retail stores themselves, 90 or 100 retail stores in Ontario, and they sold these stores at one stage of the game, I believe in about 1919 or 1920 to Arnold Brothers, and because Arnold Brothers did not have enough money, probably, to pay the whole bill, they accepted 50 per cent shares for 50 per cent of the purchase price, and when we acquired William Davies they were worth about the paper on the wall. Through a series of later purchases, Arnold Brothers turned into a Dominion Stores holding so that it was a kind of an historical accident, and I must say a fortunate one for us.

Mr. URIE: Now, I wonder if you could tell us who holds more than a five per cent interest in your company.

Mr. McLEAN: I was afraid you were going to ask that. I cannot tell you with precision. I will tell you what I know, but I would like to check my information. So far as I know there are only two shareholders with more than a five per cent interest. Those two would be the estate of J. S. McLean and the estate of James Harris. I would like to have a chance to check that, because I cannot claim I have looked at a shareholders list for the past six months.

Mr. URIE: If there is any change perhaps you will let us know. Will you now turn to Exhibit 2. You use the term "Invoice value of sales", with a figure of $722,128,000 for the year 1966. Is this a net value of sales after all discounts?

Mr. McLEAN: Yes. Well, it is exactly what it says—Invoice value of sales. In your sense it is net, but it is not net of transported charges.

Mr. URIE: What discount or what would be off the actual ordinary list price?

Mr. McLEAN: This varies a good deal. Is this a general question, or are we now talking about the meat business? I am quite prepared to answer the general one, but it is more complicated.

Mr. URIE: I am referring to the meat business.

Mr. McLEAN: In the meat business, almost none. I do not want that misinterpreted. I am not saying we do not participate in store promotion co-operative advertising, but it is not handled as discount on sales; whereas in canned goods, for instance, there is a quantity rebate, in the case where, for instance, a large number of cases are purchased, the purchaser is entitled to a rebate of Y per cent; but that does not exist in the meat business.

Mr. URIE: I suppose in volume discounts or promotional expenses it might come under the heading of selling or operating expenses somewhere else.

Mr. McLEAN: Yes. They are all included in the figures shown in the brief under advertising, on page 5. That is all inclusive.

Mr. URIE: Under the heading "Sales and Operating Expenses" on Exhibit 2—is that purely as the heading implies, selling and operating, without any portion of advertising and promotional schemes?

Mr. McLEAN: Advertising would be in it.

Mr. URIE: Where is advertising in your statement?

Mr. McLEAN: It is not. It is lumped in that "Selling and Operating". If you want to refer to page 5, the advertising, for example, you will see that the expenditure as a percentage of sales was 0.68, and the total advertising, 1966, was $4,745,000.

Mr. URIE: Could you tell us what portion of that $4,745,000 is represented by other promotional affairs, other than direct advertising?

Mr. McLEAN: I think I can. Out of that $4,745,000, it breaks down in this way—media advertising—in other words, television, radio and magazines and so on—$2,363,000. Other activities, which would include what you are talking about, plus some others, $2,383,000.

Mr. URIE: Could you tell us what some of the others are?

Mr. McLEAN: Yes. In qualitative terms, I can. A substantial part would be for purchasing in store promotions, for example, which you have already thought about.

Mr. URIE: Displays, aisle displays, end displays, shelf displays, in-store displays?

Mr. McLEAN: Yes. We are now talking about our total business, because I would have to say this differently about the meat section. I am talking about the total. If we are talking about the total, meats, soaps, detergents, the lot—some of that would be promotinal ideas which we generate and try to get a merchant to undertake in his store. Some of it would be in the feed, promotional literature such as booklets on how to feed pigs and on nutritional diseases of chickens. Some of it would be display services, the cost of the salaries, if you want, of the people who go round and put up some of the displays.

I am not an expert in this field. I am having a hard time remembering all that we do.

Mr. URIE: Are these retail chains' promotions, generally initiated by Canada Packers or are they initiated by the retail chains?

Mr. McLEAN: Both, but I would say more often by us.

Mr. URIE: In what way are they initiated by the retail chains?

Mr. McLEAN: Let me describe the process, if I may. On grocery type products, in which I would include canned meats, shortening, margarine, and so on, we set up a promotional allowance on these products. This of course is well known to our customers because the whole object of the exercise is for us to let them know. There will be a case rate basis, for example. I have some figures here of typical ones. For example, if the rate is half a cent a pound on domestic shortening, which would be say, X cents per case. That is set up in an account and that is accumulated on a quarterly basis, generally, though not necessarily quarterly. We will say to the customer concerned: "There is so much X dollars accumulated in the fund, what can we do to stimulate the movement of the product?" In that sense, it is initiated by us.

Mr. URIE: And what ones are initiated by him?

Mr. McLEAN: I am not sure I can answer that correctly. It may be that I answered it incorrectly the first time. I think it is really more of a joint initiation. Our people are in constant touch with the merchandising people in the chain stores and they are as anxious, though perhaps not as much as we are in regard to our own product, to double the output of the product. They know this fund is available. So really the initiation is a kind of hypothetical question, if you wish, because everybody knows the fund is there and the subject is a natural one for discussion.

Mr. URIE: But the amount you pay in any given store or any given chain is a negotiated amount?

Mr. MCLEAN: Right, and that could be that they will say: "We have accumulated X dollars in the pot, so to speak, for promotional purposes; we have a good promotion that we would like to talk to you about buying, about taking over, and this involves this and this and this and this service," which they then provide.

Alternatively, we may say: "Here is what we would like to do, are you interested in doing it?" And if they are we set up a process for it.

Mr. URIE: If that money were not set aside for promotional purposes, presumably the product might be sold to the retailer for a gross amount less the amount set aside for promotional purposes?

Mr. MCLEAN: Arithmetically that is true but in practice I do not think it would work. The volume would dwindle so that in fact you would not be selling for that much less for long. The volume would dwindle and then the unit expenses would go up.

Mr. URIE: So you think the advertising expenditure is a necessary evil, in order in the long run to increase the volume and so give a reduced price to the consumer?

Mr. MCLEAN: "Evil" is your word. I think it is necessary.

Mr. URIE: It is my word. Is that correct, even using my word?

Mr. MCLEAN: I think so, yes. I might point out that I do not think these figures indicate excessive expenditure.

Mr. URIE: We are trying to get at the bottom of the cost.

Co-Chairman Mr. BASFORD: What change in your promotional arrangements occurred in 1960?

Mr. MCLEAN: I am sorry, I do not understand the implication.

Co-Chairman Mr. BASFORD: You outlined to Mr. Urie some of your promotional activities, by which you would allow so many cents per case which would build up quite a fund available for promotion to customers. What, if any, change occurred in those arrangements in 1960?

Mr. MCLEAN: I have no idea.

Co-Chairman Mr. BASFORD: When section 23(b) of the Combines Act came in?

Mr. MCLEAN: I cannot answer that in detail. I know very well that every type of activity that we had engaged in was reviewed at that time, with a view to seeing if it was within the provisions of the new act, but I cannot answer that in detail.

Co-Chairman Mr. BASFORD: Do any of your customers sell you market information?

Mr. MCLEAN: No.

Co-Chairman Mr. BASFORD: As to the movement of your products through their stores?

Mr. MCLEAN: No, none.

Senator THORVALDSON: In regard to promotional activities and advertising, I take it then it is your view, your position, that these promotional activites and advertising definitely do not add to the cost of the product in so far as they are part of your whole scheme of operation and the volume takes care of this cost. Is that your view?

Mr. MCLEAN: Yes, that is my view. I find it very difficult to answer your question, because obviously arithmetically they add to the cost and somebody has to pay for that. But it is my view that if you said: "Well, all right, let us save

that money and cease that altogether", I think that, in the case of our company anyway, and this is the only knowledge I have, we would not in fact save that money. It would not be very long before our volume would dwindle to the point where our expenditures would have gone up, to soak it up.

Senator THORVALDSON: I am referring particularly to your company, but it is obvious the others would be the same.

Mr. McLEAN: I fully realize that this is a matter of judgment. I would be the last person to say that we have not over-promoted some things at some time and under-promoted other things. I wish I had some of the money that we spent foolishly advertising. However, I think it was Lord Leverhulme who was accused of being wasteful, and someone said he had wasted half his money on advertising, and he said: "That is right, now if I can only find out which half."

Mr. URIE: In Exhibit 3 you have dealt with your Canadian livestock position. May I ask why you referred to the "Canadian" livestock. What is the distinction?

Mr. McLEAN: We thought the committee was interested in prices in Canada and not in Australia.

Mr. URIE: You did not mention the Australian operation in other lines?

Mr. McLEAN: I am sorry. One thing I probably failed to mention altogether and which was an oversight, if I did not mention it, is that we have an interest, but not control, in a small meat operation in England, in the cured meat field. But both that and the Australian operation are excluded from the Canadian livestock figure because we thought it would merely confuse the issue.

Co-Chairman Mr. BASFORD: The members of the committee have no constituents in either England or Australia.

Mr. URIE: You have a large item there, $52 million, for expense. What is the breakdown of the expenses? It is Exhibit 3, 1962. It is $64 million for 1966.

Mr. McLEAN: In the text I think you will find one portion where that is mentioned. On page 4, you will see that our wage bill in 1966 was $42 million, out of that total of $64 million.

Mr. URIE: There are many expenses which you have in your organization which must be very difficult to allocate to any one division?

Mr. McLEAN: That is very true.

Mr. URIE: How do you determine what portion of the $22 million which is left over, after allocation to direct labour—you have $42 million, I think you said, in direct labour?

Mr. McLEAN: That is salaries and wages, not just direct labour, allocated relevant to this position.

Mr. URIE: Is that because of the difficulty in allocation of all expenses?

Mr. McLEAN: No, most salaries and wages are not all that difficult to allocate. There are other expenses which become more difficult, for example, depreciation. We operate packing plants. In our Toronto plant, for example, we make not only meat products but shortening and margarine, we could not say that we have allocated the fixed charges exactly correctly. I do not know if there is such a thing as exactly correctly, but we do the best we can. We know what the capital cost of the machinery is, so we can allocate, but when you come to a boiler house, which piece of this do you allocate to one or the other? We allocate on such premises as usage of steam, occupancy of space, and so on. For that reason, these figures are not exactly precise.

Mr. URIE: So your percentage of profit to net sales might be distorted to some extent by improper or unfortunate allocations of expenses to this $64 million?

Mr. McLEAN: It could be, but I would hang my hat on these profit figures, within plus or minus five per cent of the profit figure itself, and certainly within

that, and probably closer to plus or minus one percent; and so far as the financial statement is concerned, of course, they are consolidated figures and they are precise.

Senator HOLLETT: On page 24 you say your selling price of bacon has increased 32.7 cents?

Mr. McLEAN: No, that is not quite correct. If you look at the bottom of page 24 you will see that the source is the Livestock and Meat Trade Report.

Senator HOLLETT: That is part of your brief. You admit that that is so, do you?

Mr. McLEAN: I certainly admit that these are the figures in the report.

Senator HOLLETT: You say: "Some actual increases in packers selling prices between January 5, 1962 and January 7, 1966 were" so-and-so?

Mr. McLEAN: Yes, that is right.

Senator HOLLETT: How does that compare with the increase to the consumer since 1962?

Mr. McLEAN: I cannot answer that, I am sorry.

Senator HOLLETT: That is a thing we want to know.

Mr. McLEAN: I do not know.

Senator HOLLETT: Have you no knowledge of what the ordinary shopkeeper is selling your bacon for?

Mr. McLEAN: Yes, I have knowledge of it but I have not got sufficiently precise knowledge of the average prices over any one period to make comparisons of that kind. I know what bacon is selling for in a chain store. We would get some information but I would rather trust the figures of some one who set out to study this.

Mr. SMITH: Yesterday, Mr. McLean, there was some discussion with one of the witnesses about grades A, B, C and D carcasses of hogs. There was a question of whether, if you had a grade C carcass hog, you would be able to get any first grade bacon from it.

Mr. McLEAN: Well, the situation on that is this: there are, of course, various grades of hogs—A, B, C, D and others as far as that is concerned—and there is a differential in the price you pay for different grades of hogs. Now, let us take, for example, the ham; suppose you are going to make a boneless cooked ham; well, all right, you can make just as good a ham in every respect from a grade C hog as from a grade A hog, but it is going to cost you a lot more to do so, because the grade C hog has more fat. You must trim off the external fat and then open up the ham and trim out the internal fat before you can cook it.

In the case of a ham cut it is not a question of whether there is anything inferior about the ham; it is a question of having more fat on it which you have to take off. Fat is worth a lot less than lean meat. Therefore, the realized price of the ham as it comes from the hog is a lot less.

In the case of bacon, the situation that you mention is somewhat different. If you get a grade C hog, it will generally not produce first grade bacon at all, no matter what you do, because, as you know, in bacon the fat is distributed in layers between the lean, and there is just no practical way of trimming the fat out and making the bacon more lean. So in the case of bacon you must select the type of belly you are going to use in the first place. Generally, the best belly comes from the highest grade hogs.

In the case of some other cuts, of course, you can manufacture first grade products, but it costs more to do so.

This is the real meaning of the differential.

Mr. SMITH: Does the meat packing industry, as an industry or through any of its organizations, spend any money on consumer research?

Mr. McLEAN: As an organization?

Mr. SMITH: As an industry.

Mr. McLEAN: Well, a limited amount is spent as an industry. It would be quite limited. The Meat Packers Council of Canada, or some of their activities at any rate, could be interpreted in that way.

I know more about my own company than I do about the whole of the industry, and speaking for my own company, we put a considerable amount of effort into this. We make a genuine attempt to find out what the consumer wants.

I think I would have to say that at any given moment on any given product we may be well away from the truth, but we are always trying and always improving.

Similar to what you heard this morning, we employ home economists and market research people to try to find out what the consumer preference really is on every product.

Mr. SMITH: Well, from the tables that you and some of the other witnesses filed, the indication is that turning to vacuum-sealed containers added substantially to the cost, particularly in relation to the small six-ounce and half-pound packages.

What consumer demand brought about the vacuum-sealed packages?

Mr. McLEAN: Well, let me say two things about that: first of all, there is a very distinct advantage in the vacuum pack from the point of view of shelf life or keeping quality of the product.

As far as bacon is concerned, the table on page 6 indicates that one pound of bacon costs about 1.4 cents more per pound to vacuum package than to pack in saran wrap.

Now, in our own company we had a lesson on this point. I took the view, at one time, that the cost of vacuum packages on bacon was unwarranted, although that may be too strong a term. I could not see why we should spend that extra money on packages and I thought we might just sell the bacon cheaper. We came awfully close to ruining our bacon business. Our provision people would not speak to me for a long time. It had a very dramatic effect in that case.

Senator THORVALDSON: In other words, there was public demand for that type of package?

Mr. McLEAN: Certainly. Given the choice of the two styles offered, they were picking up the vacuum package ahead of ours. There is no question of that. We suffered a very serious decline in volume.

Mr. SMITH: Looking at some of the charts filed, and at the average wholesale price of bacon—I believe this one called "Anatomy of a Pig" is one of your leaflets, is it not?

Co-Chairman Mr. BASFORD: That is a Department of Agriculture product, Mr. Smith.

Mr. SMITH: Well, the average price of bacon, wholesale, was 90 cents a pound, and the average retail price was $1.34. If you look on bacon as a low spoilage item, does that indicate that the retailers use that as a high mark-up item?

Mr. McLEAN: I do not know whether I can answer that. I have read the transcripts of the previous hearings of the committee, and what I gathered from the figures presented there was that the retailers' mark-up on bacon was in the neighbourhood of 25 or 26 per cent of the selling price. I just do not know enough about how to run a retail store to know whether that is the lowest mark-up in the world or the highest. I do not know anything about what expenses are incurred.

Co-Chairman Senator CROLL: What is the mark-up at your level?

Mr. McLean: Well, it depends where you start, sir. It is a little difficult to call it a mark-up. If you want to say that we take a fresh belly and supply the sliced packaged bacon from that, then our total expense shown would be 21.8 cents. However, that is starting from a belly. If you start from the pig, then you will have to add further expenses onto that, as shown, I think, in the brief.

However, in any real sense of the word, we do not think in terms of mark-up. The word is never used, because it does not mean much in our industry, or in our company, at any rate. We produce what we think is an acceptable article. We try to forecast and try to find out what the public wants to buy. We produce the article. We find out how much it costs us to produce it. Then we try to sell it for something more than that. If we cannot sell it for something more than that on the average, then we do not produce that article any more. So either we have to find out how to lower our costs or we have to modify the article to the point where it is more desirable.

However, on any one article such as bacon, for instance, we do not always sell for a profit. We will go for substantial periods of time losing money, but in other periods of time we will be making money.

Co-Chairman Senator Croll: Give the others a chance. I will get back to my question in a while.

Mr. Smith: Your sales of beef products, livestock products, in 1966 have been almost $400 million. Yesterday, the Burns people gave evidence that their sales were $200 million. I think. Swift's could be assumed to be somewhere between $200 and $250 million. That leaves you the big three packers of Canada, does it not?

Mr. McLean: That is correct.

Mr. Smith: Now, in a situation where the three are so big and the rest of the packing houses trail off, could it truly be said that the packing industry is competitive or have you carved up the various pieces of the market for yourselves?

Mr. McLean: No. It is a truly competitive industry.

I would like to get some figures in my head here. For example, we did a very careful study on this some years ago, about five or six years ago. I do not think these figures are too far out of date not to be meaningful considering the subject. At that time there were 2,400 meat packing plants in Canada, of one sort or another. Most of them were very small, but about 60 of them were of reasonable economic size, and when I say reasonable economic size I am talking about very substantial plants.

Take, for example, the Toronto area. Though it is true that the companies you named, Swift, Burns and Canada Packers, are the three largest companies, in the Toronto area in the pork field, for example, you have a company such as Preswood. Preswood would be at least half as big as our Toronto operation or maybe bigger than that. So that in that area, you see it is of comparable size.

In the beef business in Toronto you have Canadian Dressed Meats. You have Prime Packers. I could go on naming companies such as those. I am merely illustrating. However, in any one market area you will find a substantial group of sizeable competitors.

Now, certainly, Preswood have no competitive influence on us whatsoever in Edmonton, but somebody else does—Gainers, for example. So that in my view, and I have lived with this industry some time now, it is as competitive an industry as any that I have ever had any knowledge of.

Mr. Horner: Mr. Smith asked a question that I would have asked myself, and I am going to continue on that line for a minute or two. You believe there is ample competition in the meat industry. Some years ago you bought out Calgary Packers and Wilsil in Montreal. There was quite a bit of concern across the

country as to whether or not you were going to lessen competition to some real extent.

I do not know whether the committee is aware, or whether you are aware, of the recent study on food prices which is taking place in the United States. They have published a report there called From the Farmer to the Consumer. It is a very thick report. One of the recommendations made in it was that, under the Combines Investigation Act, there should be some regulatory body before which you would have to come in order to prove that, before buying out your competitor or any form of your competitor, you are not going to lessen competition unduly.

Now, if this committee brought about a similar recommendation, would you have any objection to it?

Mr. McLean: Well, I do not suppose my objections would have any effect, if I had any. However, I really could not answer that without seeing in detail what was proposed and what the situation is now and what it might be afterwards.

Mr. Horner: I am thinking back to your recent purchase of Calgary Packers and Wilsil. Suppose that at that time you had had to appear before a federal board and had had to ask for permission to purchase your competitors; would this have created any hardship for you?

Mr. McLean: If that had been the law, sir, that is what we would have done, and we would have presented the best possible case we could have.

Mr. Horner: In your financial statement, on page 7, you go into some detail as to how you believe you are going to continue to enlarge your operations. You are putting in additional construction in Calgary, Lethbridge, and Red Deer Alberta, and in London, Ontario. Do you feel that this construction is necessary in order to hold onto your share of the mardet or in order to increase your share of the market?

Mr. McLean: Well, I cannot answer that with precision. You would have to separate it product by product and area by area. But I might say that I certainly feel that construction of a new beef plant in London and new beef plant in Red Deer would serve to increase competition rather than to decrease it.

Mr. Horner: I am not saying it would not. I am going to go on to another line now. In your brief, in the second last paragraph or so, you suggest that in order to become fully compensated for the increase in the price of pork, from 1962 to 1966, the average price should have increased 23.6 cents per pound, and you outline how much actually your prices did increase, and you end up by saying:

> It will be obvious that only in the two products, hams and bacon, was the consumer demand sufficient to at least recover the advance in costs.

Are you not omitting the fact that hams, bacon and perhaps loin take in well over 60 per cent of your products?

Mr. McLean: No, sir, I am not omitting that. Those figures are very clearly spelled out in the brief.

Mr. Horner: In the early part of the brief, yes, back on page 12.

Mr. McLean: And I might point out that the figure is not 23.6; the figure is 29 to 32. It is 23.6 on the primal cuts only.

Mr. Horner: You feel that you must have an increase from 23.6 to 32?

Mr. McLean: I did not say that we must have such an increase. I said that if you wish to stay even with the price of livestock, that is what would be necessary on the average. May I qualify that to this extent: That the inherent assumption in that statement is, of course, that expenses remain steady and that productivity and so on do not change. Of course, that is not true; we hope

that we can make some improvement in productivity and, in fact, lower expenses.

Mr. HORNER: Consumers have the impression that percentages remain the same, even though the price goes up. In other words, 12 per cent of a high price is a whole lot more to you people than it would be if it were 12 per cent of a low price.

When you state in your brief that an increase in price is equivalent to an increase in average price of 23.6 cents per pound, where is the difference there?

Mr. MCLEAN: This is a straight question of arithmetic. The 23.6 cents per pound is based on the average return for the total primal cuts from a pig, the custs weithing an average of 101 pounds.

Now, in fact, we do not sell primal cuts. We sell cooked hams, and what not, made from the primal cuts, and the actual sales weight resulting from that 101 pounds of primal cuts is about 80 to 85 pounds, so that if the value of primal cuts goes up, if you take 100 pounds and it starts at a dollar and goes up to $1.23, you then convert that 100 pounds to 80 pounds, and the 80 pounds has to go up about 30 pounds to recover the total dollars. That is straight arithmetic.

Mr. HORNER: Does not the inedible part of the pig make up for some of this?

Mr. MCLEAN: No, it does not. In some cases, yes, but in others it is exactly in the opposite direction. If you look at the chart on cattle it will give you some idea, but of course it does not deal with hogs.

Mr. HORNER: Dealing with cattle, it is noted that with your average steer the inedible parts are worth $29 in average cases, which in effect created your profit for the marketing of the steer. Would that not apply to a hog?

Mr. MCLEAN: No. If you look at page 8 of the brief you will see that I say that the inedible by-products from the steer in February 1966 was $17, in October 1962, $14.50, and in October 1966, $13.54. Those are merely examples to show the variability. Hides and tallow as by-products bear no real relation to the price of meat or the animal. If you look at the chart, Exhibit 10, you will see that it charts the price of heavy native steer hides, and you will see that the price pattern bears no resemblance whatsoever to the price pattern of either cattle or meat.

Mr. HORNER: Speaking of hides, was there any request made recently by the Government to the hide industry generally that they limit their exports or direct their exports to any one country?

Mr. MCLEAN: I am not familiar with that subject to answer specifically, but certainly the United States government put some restrictions on hide exports, about a year ago I believe; but they have been removed now, I believe; I am not positive about that.

Mr. HORNER: One further question. What is your opinion of rail grading of beef? Would the consumer run less chance and risk in any way in the lowering and fluctuation in cost of handling a beef carcass?

Mr. MCLEAN: I don't think it brings in lowering of the cost. We handle a great deal of beef both ways. We buy a lot of beef as live animals and also buy beef from many feeders on a rail grade basis. This is a preference. If you ask my personal opinion, rail grading is probably a more rational system. If a man is a good feeder and has confidence he will have good grades come out of his cattle then I think he does better to sell them on a rail grade basis, because the article is in a condition in which you can examine it with precision instead of guessing what the grade is going to be.

Mr. HORNER: In view of the recent beef conference in Winnipeg, are you satisfied with the grading of beef carcasses?

Mr. McLEAN: I do not think grading of carcasses is a subject anybody can ever be satisfied with, but I do think that in Canada we have a system which works well and it is well done—and I see Mr. Bennet of the Department of Agriculture here—but it is a matter for constant examination.

Mr. HORNER: With regard to your expenses, you suggest on page 3 of your brief that your raw material costs run to 77 per cent per dollar of sales, and your expenses to 21.7 per cent per dollar of sales. I examined the brief and your charts and did not see any fluctuation in these expenses.

Mr. McLEAN: If you look at Exhibit 3, those figures concerned with livestock, you will see 77 per cent for 1965, and if you run your eye across the chart you will see the fluctuation in those years concerned.

Mr. HORNER: And your expenses go up; is that right?

Mr. McLEAN: Look at the very bottom at expenses per cent per pound. Percentage of expenses will vary because the price varied. Dollar expenses could remain indentical but if the selling price went up 10 per cent the expenses as percentage of sales would apparently come down. So that the more meaningful figure is at the bottom as cents per pound. I am sorry to keep qualifying these statements, but even this one I have to qualify, because this is a compilation of our total, and the product mix in each year is not exactly the same. There may be more beef one year and more pork another. Therefore, the expense in cents per pound cannot be interpreted precisely.

Co-Chairman Mr. BASFORD: The figures at the bottom of the page on Exhibit 3, Mr. Horner, show per pound of sales volume.

Mr. HORNER: Again, you have an increase.

Mr. McLEAN: Yes.

Mr. HORNER: Of four cents.

Mr. McLEAN: No, an increase from 1962 to 1966 of 0.43 cents per pound.

Mr. HORNER: What per cent of gross business do you think you do in meat processing and pork.

Mr. McLEAN: I can give you estimates of that. I think they are fairly precise. I will not give this to you by classes of livestock. Let us take a look at total meat. Now, this is an estimate of the total meat business based on carcass weight. We have to bring it to some common denominator. It is not possible to do it in detail. We have tried to take the equivalent of everything we sell and to say how many carcasses it represents and how many carcasses are distributed in Canada, and that is our percentage of the business. On all red meats, that means beef, veal, mutton, lamb and pork, we reckon that in the calendar year 1965 we did about 28 per cent of the meat business. This is our estimate of our share of the meat business but expressed in terms of carcasses.

Mr. HORNER: Do you import mutton from Australia?

Mr. McLEAN: Yes.

Mr. HORNER: Would you say that you are one of the larger importers of mutton in Canada?

Mr. McLEAN: Yes, one of the larger importers; I would say so.

Mr. HORNER: How do you sell mutton?

Mr. McLEAN: It goes into sausage, weiners and bologna, almost entirely.

Mr. HORNER: Is this advertised on the product when it is sold? In other words, when I buy a package of mutton, or a weiner, or boloney, or processed meat, am I made aware of the fact of what is in that package of goods?

Mr. McLEAN: I don't think so.

Mr. HORNER: No, I don't think so either. I think this is one of the recommendations this committee could bring about. In fact, I have heard from

many people that the federal Government should have the right to ensure that goods are properly labelled.

Co-Chairman Mr. BASFORD: At the appropriate time we will come to a discussion of that.

Mr. HORNER: I want to point that out to the Chairman and to the committee.

Co-Chairman Mr. BASFORD: Your remarks are on the record.

Mr. HORNER: I can bet any amount of money that housewives do not know they are buying mutton when they are buying weiners.

Mr. MCLEAN: Well, is that bad? Is mutton bad?—I didn't mean the principle.

Mr. HALES: I have one or two questions, Mr. Chairman, pertaining to by-products. I was interested in the remarks of Mr. McLean in that they tan their own beef and calf hides.

Mr. MCLEAN: I am sorry, I might interrupt to say that is not quite correct. For instance, our calf tanner buys from Canada Packers only about 20 per cent of the calf skin we produce. They buy from us and from Austria, and anywhere else they can. Our tanneries are commercially independent. They buy where they get the right quality and are able to buy at the best price. Only about 20 per cent of our calf skins are tanned by us, and hides, about 40 per cent, I think.

Mr. HALES: Due to the advent of Hush-Puppy shoes, pigskin or pig rinds have become very valuable. Are you having these tanned or processed?

Mr. MCLEAN: We are tanning them at Beardmore.

Mr. HALES: What would be the price or the value say of a pound?

Mr. MCLEAN: Of pig rind?

Mr. HALES: Yes.

Mr. MCLEAN: Rather than mislead you with a figure, may I give you an estimate now and get a correct figure later? My recollection is it would be around 14 or 14½ cents per pound fleshed and ready to tan.

Mr. HALES: Now may I refer to Exhibit 14. When we are arriving at the cost of processing bacon, you have "Less rind", and the weight is given as 1.24 pounds. You take that off and then add the cost of 8.65 cents to the cost of the belly.

Mr. MCLEAN: No, it is subtracted not added.

Mr. HALES: But it adds to the cost of the belly when you take the rind off.

Mr. MCLEAN: I am sorry, but the rind is worth that and you deduct the value of the rind.

Mr. HALES: Where do you show the value of 1.24?

Mr. MCLEAN: We show 8.65, as you see. I cannot reconcile that. I can tell you this, that the rind from belly is not used for tanning because it is not suitable for tanning. The rind used for tanning is a piece of rind about one to one and a half square feet and comes right off the back of the pig and is taken right off the killing floor before the pig is split. We show 8.65 cents for the bacon rind. It amounts to 11 cents and that 11 cents is deducted from the cost of the belly.

Mr. HALES: In your loin and the processing of the loin, do you show a by-product credit of 14 cents per pound for the pigskin?

Mr. MCLEAN: No, that would show up in the by-product figures for slaughter.

Mr. URIE: May I draw your attention to Exhibit 12, sheet 2, towards the bottom—

Mr. MCLEAN: No, that is the wrong one. That is either an error, or I do not understand the system. It is listed under cutting credit. We show selling price at this time of 11 cents. Now, my guess is that this is a composite figure for rinds,

but I would like to check it. It would include some rind for tanning at fourteen or whatever the price was at this moment, plus some rinds which are scrapped pieces out of the cutting room which will go to the production of gelatine, the value of which would be in the region of 6 cents or thereabouts. But I could find out in detail for you. I can assure you that the by-product credits are all in there.

Mr. URIE: That is what I wanted to make sure of.

Mr. McLEAN: They are, definitely. Right at the moment I have some material at my desk and we have a very hot argument from Beardmore that we are charging them too much.

Senator THORVALDSON: Mr. Chairman, I have just one question, and that is in regard to export trade in Canada and the United States. Does your company do an extensive trade with other countries in meat products?

Mr. McLEAN: In relation to the total, it is not enormous, but we do a substantial trade. We sell a considerable amount of canned hams; packaged, what the Americans call Canadian bacon, it is back bacon—in some areas in the United States, principally on the east coast, in the big cities, Boston, New York, Philadelphia, Miami and other spots in Florida, and on the west coast, in Los Angeles, in the big city markets. We have to contend with freight and duty, and at many times a higher hog cost; so the only thing we can rationally sell down there is a Premium product that automatically makes a higher price. But we can make an article from Canadian hogs that the Americans find is hard to duplicate from their hogs.

Senator THORVALDSON: When you refer to "your company" having 28 per cent of the market, you are referring to the Canadian market?

Mr. McLEAN: Yes, 28 per cent, I was referring to the Canadian market. To follow that up a shade, although this is not all entirely in meat products, our total export business, added up, amounts to roughly $35 million to $40 million a year. That is, everything—hides, some potatoes, our foreign trade division are traders in pretty well anything they can get hands on.

Senator THORVALDSON: That is your company alone, about $35 million export?

Mr. McLEAN: Yes.

Senator THORVALDSON: What about import?

Mr. McLEAN: I am sorry, I cannot give a figure. It would be much smaller. We would import some bellies from the United States from time to time, dependent on the marketing relationship. We would import some mutton from Australia, some lamb from New Zealand and Australia. Two or three years ago we imported some pork cuts from Ireland. But in total our import business would be a good deal smaller than the export.

Mrs. MACINNIS: Taking the last two years of your reports for 1962 to 1966, has your company noticed changes in the volume of sales for the various kinds of meat and meat products—hams, bacon and so on? What changes have there been in what housewives have been buying and are being sold, over the last five years or so?

Mr. McLEAN: I can answer this in general terms. These sales have increased faster than pork sales. I would like to have the figures, to be sure of precision in this, but in fact pork sales are either static or slightly declining. Beef sales are growing and are rather healthy. Poultry has been the most spectacular of all; in the last five years I would guess it has averaged not less than an increase of 15 per cent per year.

Mrs. MACINNIS: As among the ordinary straight cuts of the different meats, versus these manufactured products like hamburger and processed meats, how have the trends been there?

Mr. McLEAN: The processed meats arise in the main from hogs. From where we sit, a great majority of the beef is sold in big pieces. Since hogs have been static or declining, it is a little hard to answer that, but I think that as a percentage of the total pork meat sold, the highly processed stuff has increased.

Mrs. MACINNIS: Would this mean that in general the volume of the less expensive cuts of meat has been increasing in the last five years?

Mr. McLEAN: No; the other way.

Mrs. MACINNIS: How much of this would you say was affected by the rising cost of food? In what way would that affect food products?

Mr. McLEAN: I do not know. I find it very difficult to pin cause to effect in these matters.

Mrs. MACINNIS: This committee is supposed to find out how it affects the consumer and I should think you would know something about this regarding meat, because you are dealing with this, and I want to get at your wisdom in this matter.

Mr. McLEAN: All I can say generally is that the more desirable—if you wish, the higher priced or more desirable—cuts or portions of meat have relatively taken over more of the load, from the less desirable ones, in these last few years. This would be true in both types of animal, hogs and beef. The highly processed items in pork taken over more of the percentage of the total in pork. I am afraid I cannot tell you why that is true. I can only assume—I guess, like everybody else—that with larger incomes and more money, people bid, if you wish, for the more desirable pieces of the carcass.

Mrs. MACINNIS: How much would you set down to advertising?

Mr. McLEAN: In meat, very little. I think you have seen our figures. Meat advertising comes to a very small amount of money.

Mrs. MACINNIS: We heard this morning about meat advertising in magazines on both sides of the border. There is a great deal of magazine advertising going on?

Mr. McLEAN: There is some, but it is a very modest amount of money in meat. In our own case, for example, our figures in total meat represent about .4—a little less than .4 per cent of sales, in meat. In our case—we have the dollar figures here—it would be a little less than $\$1\frac{1}{2}$ million.

Mrs. MacInnis: Surely you must have been aiming, in your advertising, to bring about certain trends in meat products? Has it not affected it in some way?

Mr. McLEAN: It may be that this is an admission of being a follower rather than a leader, but generally speaking the fact is that you spend your advertising on the things that show a tendency to move. Advertising, generally speaking, is not invested to move things that are difficult to move. In other words, you spend your money where the success is easier to achieve. So I think the advertising follows the preference rather than leads it.

Mrs. MacInnis: You are saying that you are not, in general, trying to create trends by processing your foods?

Mr. McLEAN: I would say not.

Mrs. MACINNIS: You would say you are following the trend rather than changing?

Mr. McLEAN: One cannot make a categorical statement either way. I suppose that there is a tendency to create new trends, every time there is a development of a new package or something like that, that might create a trend.

Mrs. MAcInnis: We were told this morning, regarding a certain type of bacon from one of your competitors, that they had deliberately gone out to create and promote. Do you do that sort of thing?

Mr. McLEAN: Yes, from time to time, on new products.

Mrs. MacInnis: How much of this changing trend do you set down to the fact that there are more women working at jobs outside? How much account do you take to their wanting a more readily prepared and more quickly prepared foods?

Mr. McLean: I cannot assess that but I think it has to be a factor. Certainly, I think people want to spend less time on preparation; and if they have got the money they appear to be prepared to pay for that service.

Mrs. MacInnis: You would say that this would add to the cost of living?

Mr. McLean: Yes.

Mrs. MacInnis: It would add to the cost of living?

Mr. McLean: Yes.

Mrs. MacInnis: Another witness yesterday said, in his brief, that he considered this changing of the bacon package, in order to show the strip, to be a waste of money and a bad thing to do?

Mr. McLean: I think it was a very constructive move, myself. We have been trying for a long time to find some common agreement, between the Food and Drug Department, and the Consumers Association, and the meat packers, to find a solution which was practical for the meat packers, that would not cost the industry a fortune to do, and that satisfied the natural desire of the consumers to see what they were buying, and to satisfy the food and drugs authorities. I was very glad to see the question settled at least to everybody's partial satisfaction.

Mrs. MacInnis: Take the case of when there is a woman buying in supermarkets—and I am one of them. In the case of something being marked "No. 1"—when a witness was replying yesterday he gave me the impression—I am not going to put words in his mouth—that there was no necessity to see inside that package, because the quality would be all uniform, anyhow. He gave me that impression—that is, if it was marked "No. 1".

Mr. McLean: Of course, that is not true. Unfortunately, we did not design the pig, and we have not much control.

Mrs. MacInnis: Do you think, then, that it is a justifiable thing that a woman should see, even if the grade is marked on the outside? Do you think they are justified in wanting to see what they are buying in the package; or is it good enough to say that it is marked Grade A or Grade B and they do not need to see what is there?

Mr. McLean: Are we talking about bacon, or on the general principle?

Mrs. MacInnis: I was talking about bacon. Stick to bacon.

Mr. McLean: I think it is justifiable.

Mrs. MacInnis: The consumers will be glad to know that.

Mr. McLean: I asked especially whether we were talking about bacon or on the general principle. The reason I asked is that the question might come up whether we should have plastic hoods on motor cars, so that one could see what kind of spark plugs are inside. It is different for various products.

Mrs. MacInnis: The general question I have in mind relates to supermarkets, to get this clear, especially when you want to see what you are getting. When the meat arrives, it is packed at the retail level in some cases.

Mr. McLean: Certainly, some fresh meats are, yes.

Mrs. MacInnis: Does it add greatly to the cost to have the meat visible, or does it not?

Mr. McLean: I would have to say no, in the case of bacon. It is easier to talk about one specific thing. In the case of bacon, I would say no, it would not add much. If it had started that way in the beginning, it would have added nothing. I do not think that inherently it would mean making the bacon any more costly, but it did add something to the immediate cost because in fact the machinery

that the industry owned had been bought for doing it a different way, and that machinery either required replacement or modification. So it might add something to the immediate cost, and it also adds a considerable amount, from the point of view of the manufacturer, to the cost, because he is trying to run out of the old packages at the right moment and not be stuck with obsolete inventory. This is nothing, if you spread it, it means nothing to the consumer; it would amount to such a small fraction of a cent per pound that you could not find it. But in the case of an individual company, you can think of his being faced with writing off something like $30,000 or $40,000 in obsolete packages. Inherently, it is not more expensive.

Senator CARTER: Most of my questions have been covered already by others. Is there a very great difference in the cost of putting up half pound packages as compared to one pound packages? Is there much of a cost increase?

Mr. McLEAN: Yes. In the case of bacon, it costs $4\frac{1}{2}$ cents per pound more to put it in half pound packages than in one pound packages.

Senator CARTER: Do you put it up in packages smaller than half pound?

Mr. McLEAN: No.

Senator CARTER: I think you said earlier that you have a home economist?

Mr. McLEAN: We have several.

Senator CARTER: Are they spaced around Canada?

Mr. McLEAN: They are mostly in Toronto but they travel a lot.

Senator CARTER: Do these people try to educate the public as to the food value of the various products?

Mr. McLEAN: Yes. I do not know whether we have done as much as we should in that area, but the answer has to be yes. They operate cooking schools where food values are discussed. We publish cook books in which this is discussed. I do not want to mislead the committee into thinking this is a major effort. I think that probably we should do more, but we are certainly conscious of the problem and we do something about it.

Senator CARTER: Do any of your employees, or do the home economists, follow your products through the retail outlet to see what happens to the housewife?

Mr. McLEAN: No, the home economist would not, but our salesmen report back to us. They are in the areas and they are the logical people to get reports from.

Senator CARTER: You do get reports about your products?

Mr. McLEAN: We do not maintain a continuous and detailed survey of retail prices, because this would be a costly operation; but we do maintain certain price surveys from time to time on different products. In one case that I remember I can recall discussing with one retailer that I thought the markup on one of our products may be a little out of line, compared to the competitor's product; and after looking into it, he agreed with me and changed it.

Senator CARTER: You have information that would indicate that there are some very serious discrepancies in markups as compared with your product?

Mr. McLEAN: I am sorry—

Senator CARTER: You have information that there have been very high markups, very high retail prices, in some products, as compared with your own selling price?

Mr. McLEAN: No, I do not think I can say that, because it is too difficult for me to define what a retail markup is. I have little or no knowledge about the expenses of operating a retail organization.

Senator CARTER: Do you get enough information to make a comparison between the price at which the retailer is selling your product and the price at which you sold it to him?

Mr. McLEAN: We look at the retail price on some, to know what he sells for.

Senator CARTER: Do you get that flow of information coming in to any extent?

Mr. McLEAN: I said that we do it from time to time on certain products and on certain items. We do not canvass every retailer, of course. When you ask the question whether that is a high mark-up or not, the difficulty comes in knowing the standard by which to judge it. I can only say that I know nothing about operating a retail organization.

Senator CARTER: Why do you solicit this information? What use do you make of this information?

Mr. McLEAN: Well, I think I have already said that, if we found—and this has happened to my personal knowledge in one instance, and I presume in many more—that one particular retailer was taking a much higher mark-up than other retailers of similar size and character, then I think we would be awfully tempted to talk to him about it and ask him why. We would have no control over the situation, of course, but I want to be sure that this is understood correctly: I do not suggest that any retailer that I know of would resent such an approach. I think he would welcome it.

It may be lack of information in a particular area on the part of the retailer or it may be errors in pricing. It may be all sorts of things.

Senator CARTER: Just one more question, Mr. Chairman. Have there been many advances in recent years in the technology in processing your products?

Mr. McLEAN: Yes, very substantial advances.

Senator CARTER: You do not cure hams as you did five years ago.

Mr. McLEAN: Not at all in the same way. Well, five years may be the wrong time period to pick. I would feel safer about that question if you said 10.

Senator CARTER: Would that apply to bacon and to other products?

Mr. McLEAN: Yes.

Senator CARTER: In other words, you are continually experimenting with new methods of curing?

Mr. McLEAN: Yes, we are.

Co-Chairman Senator CROLL: In what respect has the consumer benefitted from this automation?

Mr. McLEAN: I think, sir, in the respect that our production costs would be a great deal higher than they are now if we had not done this. Now, I do not suggest that on the average this has lowered the price, but it has held prices pretty steady and in some cases has lowered them even in the face of substantially higher costs.

Co-Chairman Senator CROLL: If you look at the index, you will notice that in areas of little automation there has been an increase which is not comparable to that which has come in food, where you do have automation. Where are the benefits?

Mr. McLEAN: Well, I would suggest, sir, that a good deal—may I see the indexes, please?

Co-Chairman Senator CROLL: Here, you may have my copy of them.

Mr. McLEAN: I happen to have the indexes plotted, and they are easy for me to look at. In the meat portion of food, with which I am most familiar, the prices held relatively steady for a period of time, but the index has gone up very sharply in the last year and a half, or thereabouts. In a sense it is catching up to

other things that happened before. I am not sure just why that is so. I have tried to demonstrate here that a major portion of the answer to this is in the cost of the raw materials.

Now, I do not want you to interpret me as saying that the farmer is getting too much for his livestock. I do not believe that for one moment. However, I do believe that the only genuine and meaningful way to try to control these prices is to try to promote efficiency in lowering costs at every stage, starting with the producing of the animal, the feeding of the animal, the expenses in the packinghouse, the expenses of distribution, the expenses of the retailers and the expenses right through the piece.

Now, there has been a very dramatic example of this in the chicken industry. My time periods may be a little off, but six or eight years ago in raising broiler chickens, a good feeder raising broiler chickens could produce one pound of live broiler chicken weight by feeding about 3 to 3.2 pounds of feed. Today, if a man does not do as well as one pound of live weight for feeding two pounds of feed, he is a poor grower.

Co-Chairman Senator CROLL: We are getting away from the point.

Mr. MCLEAN: This is what I was getting at.

Co-Chairman Senator CROLL: No, no. We have been told time and again that automation has had a great effect upon the farmer. It has brought down his costs and he is now highly automated. That is the producer.

Senator THORVALDSON: They do not agree with that in the livestock business. You were talking about the grain business.

Co-Chairman Senator CROLL: I am talking about grain, yes. I am getting to the point. Now, I am not going to compare housing, particularly, but clothing makes a good comparison. Well, as a matter of fact, the increase this year in food has been almost twice to three times the increase in any other product.

You have part of the food industry and you are highly automated.

Mr. MCLEAN: Let me make a couple of qualifying statements about the index figures, and I am not casting doubt on them. This is not what I am trying to do. However, concerning food, I am not entirely convinced that we are comparing the same things. We have talked about packaging, we have talked about serving in smaller pieces and we have talked about what is called the built-in maid service in food.

All of those increases show up.

Co-Chairman Senator CROLL: Not on the index.

Mr. MCLEAN: I am not sure about that.

Co-Chairman Mr. BASFORD: Allow the witness to answer.

Co-Chairman Senator CROLL: Go ahead.

Mr. MCLEAN: If I am wrong, I would like to know.

Co-Chairman Senator CROLL: Well, I am telling you that that is not on the index.

Mr. MCLEAN: In that case I am wrong.

Co-Chairman Mr. BASFORD: Have you another question, Senator Croll?

Co-Chairman Senator CROLL: I was asking the question and I wanted an answer if possible. I thought perhaps Mr. McLean would have an answer.

Mr. MCLEAN: I am sorry if I am not being very helpful, but it is a very complicated question.

Co-Chairman Senator CROLL: If we had more witnesses like you we would know more about this problem than when we first started. You have been most helpful to us and we are thankful to you. Have I got him for a minute?

Co-Chairman Mr. BASFORD: No, you have not.

Co-Chairman Senator CROLL: All right. I will come back later.

Co-Chairman Mr. BASFORD: Have you concluded, Senator Carter?

Senator CARTER: Yes.

Mr. SALTSMAN: Mr. McLean, I was very interested in your remarks concerning reducing expenses in the industry as a way of helping the consumer. I think that is a very pertinent remark and is probably central to everything we are doing here. I would like to go back and resume this line of argument. I will go back to the question of advertising.

When you were questioned about reducing your own advertising, you indicated that the loss of market position, the reduced volume, would have the effect of increasing costs because you reduced your advertising. Now, we can accept this where one person in an industry reduces advertising while the others do not.

Mr. McLEAN: Right.

Mr. SALTSMAN: The question I want to put to you now about that is this: suppose that everybody in the industry reduced advertising by a certain percentage; would this be reflected in savings to the consumer?

Mr. McLEAN: I think I would have to say that it would be reflected immediately, yes, like tomorrow or next week or next month. Whether it would be reflected in the long run, I do not know. This has been a subject of discussion among economists and advertising people for many years.

I think that there is a fair consensus of opinion in that advertising does in fact expand total markets as well as alter shares of markets, but how much it does of each and in what circumstances is almost impossible to determine, you know.

Mr. SALTSMAN: Of course, the great North American myth is that advertising reduces costs.

Mr. McLEAN: As a pragmatist I must say that the North American myth has worked pretty well. It is the country that has the highest standard of living in the world.

Mr. SALTSMAN: It has worked very well, but like any good thing it has been overdone. In particular cases, suppose your company, along with all other companies, for argument's sake, had to reduce its advertising budget by 20 per cent; how would this affect the consumer?

Mr. McLEAN: Well, you can see how it would work in our case, if you want to work it out arithmetically. I do not know if it would work out exactly arithmetically; I would not be able to tell without a great deal of study. However, on meat products, for example, our advertising cost is .38 per cent of sales; and let us suppose that on meat products our average selling price is 50 cents. This is not right, but it is within the ballpark. Therefore, .38, or, for the sake of argument, let us say .40 per cent of 50 cents is .2 cents. Therefore, if we reduce that by 20 per cent, it would save 20 per cent of .2 cents, which would be .04 cents per pound.

Mr. SALTSMAN: Your overall advertising cost is somewhat higher than that, however. But when it comes to the marketing of meats advertising plays some small role.

Mr. McLEAN: On the overall picture you can do the same exercise on .7 instead of .4.

Mr. SALTSMAN: On this question of packing of bacon, we have had the packaging altered. What should be the objection from the consumer's point of view, if instead of having machinery which slices the bacon and spreads it out so only the red meat shows and then the paper is wrapped around the rest of it, the bacon were simply sliced like corn beef, let us say, and put into the appropriate package and sold that way.

Mr. McLean: I am not sure what you mean by "sliced like corn beef." Do you mean stacked?

Mr. Saltsman: Yes.

Mr. McLean: You would still only see one slice, but as it is now you see one slice plus part of the others. I would have thought that would be preferable to seeing only one slice.

Mr. Saltsman: You only see the red portion.

Mr. McLean: That is not correct. You can see the complete slice. I do not think you have examined the new package.

Mr. Saltsman: If it were off the belly, would not one slice be fairly indicative of the rest of the bacon?

Mr. McLean: No. This is the great difficulty. If that were so, the whole problem would be very simple. Unfortunately, that is not so.

Mr. Saltsman: You have to sort the bacon as it comes off the machine?

Mr. McLean: No, we do not. What we do in our plant is this: First of all, the bellies are graded initially. They are graded for size, thickness and conformation and so on. Certain of them are downgraded; the downgraded bellies are then selected for some grade of bacon other than No. 1 grade.

In other words, you do not get any No. 1 out of the downgraded bellies. However, the ones suitable, or some portion of those bellies suitable for No. 1 grade, are sliced through from end to end, and the bacon comes off on a shingle, as you know.

You then grade at that point. You may take from one belly so many inches out of the centre for Maple Leaf brand bacon and so many more inches will find their way into Devon or Jubilee bacon.

In the next belly you might get more out of the centre or less. These are highly individual animals.

If it was true that it was possible to demonstrate the average quality of a whole package of bacon by one slice, then the problem would be very simple, but unfortunately it is not true. This has been the great problem, and getting the solution to it is not easy.

I do not think the solution we have is perfect, but it is better than what we had before.

Mr. Saltsman: In answering previously you indicated that the grade of bacon, or the government grade of bacon, is not a real indication.

Mr. McLean: There is no government grade on bacon.

Mr. Saltsman: There is no government grade on bacon?

Mr. McLean: No.

Mr. Saltsman: Could there be a government grade on bacon to perform the kind of function that is now being performed by the necessity of having to put it in this kind of package?

Mr. McLean: Yes, there could, of course. However, it would not get over that objection at all, because the bacon is still variable. And, you know, I am still an admirer of the North American myth. I am not much in favour of government grades on bacon. I would like people to know that when they buy Maple Leaf bacon they are going to find it good and will be satisfied.

We operate in many fields involving government grades. They are useful. But they are not necessary in every field. In this particular field I prefer to have a chance to develop a reputation as a manufacturer, and I would prefer to have the grading standard under my own control and be able to control what I put into my top brand of bacon. Maybe it is a better grade than the government's top brand.

Mrs. MacInnis: Providing it is visible.

Mr. McLEAN: We are working on that.

Mr. SALTSMAN: Are you familiar with the paper delivered by Mr. Child to the packers group?

Mr. McLEAN: To whom?

Mr. SALTSMAN: He delivered a paper, which was subsequently given to this committee. His paper was called The Economic Challenge to Our Industry.

Mr. McLEAN: No, I am not familiar with that paper.

Mr. SALTSMAN: In his paper Mr. Child says that the industry appears to be inefficient and operates at about 75 per cent of its capacity and sometimes at only 50 per cent of its capacity.

Mr. McLEAN: Was he speaking for the industry as a whole?

Mr. SALTSMAN: I think at the time he was speaking for the industry, yes. He was addressing the annual meeting of the Meat Packing Industry.

I believe he was representing that industry at one time.

Mr. McLEAN: I think you would have to admit that he was only giving his opinions. My opinions are slightly different. I do not think the industry is inefficient. I am bound to say I think that it could be a great deal more efficient, and it is becoming more efficient all the time.

However, in comparisons that we have been able to make of our own company with American firms, British firms, and Australian firms, I would say that the Canadian industry stands up very well indeed on the subject of efficiency.

Mr. SALTSMAN: To what extent does this excess capacity exist in the industry?

Mr. McLEAN: Well, this is a very difficult subject to define, because livestock are not delivered in even quantities over the year. Therefore, by definition you always have some excess capacity at the time of the year when the livestock is delivered in lesser quantities.

The pattern is now changing. It used to be that there was a great flow of livestock in the fall and very little at other times of the year. In such a case you always had to have plants capable of handling the flood of beef in the fall, so to speak. That is changing. Livestock is evening out over the year. It is still not even yet.

But how you would identify it in terms of a percentage figure, I am not sure. How you would distinguish between what is genuine excess capacity and what is merely capacity necessary to take up a sometime peak is a difficult question. I think there is a reasonable demonstration that there is certainly some excess capacity. We were not operating for a little over three months this summer and there may have been some disruption, but in the main the livestock were handled.

Mr. SALTSMAN: But the excess capacity over and above what you need for seasonal fluctuation, would that not tend to increase your operating costs?

Mr. McLEAN: Yes.

Mr. SALTSMAN: And to that extent would it not affect the efficiency of the industrial structure.

Mr. McLEAN: Yes.

Mr. SALTSMAN: I have a statement here which I will read. It comes from a paper given by Mr. A. J. E. Child entitled "Economic Challenge to our Industry".

> From the standpoint of a nation as a whole, an industry should be a single unit not a scattering of fragments completely isolated from each other. A complete isolation of all the components of an industry cannot help but be inefficient.

Mr. McLEAN: With respect, I would want to read that in the context of the whole. I heartily disagree with it.

Co-Chairman Senator CROLL: But I think it was directed to the industry particularly where it was needed very badly.

Mr. SALTSMAN: My final question, Mr. McLean, and I may say that I think you have been extremely good and helpful to this committee, is this: Would you care to give me your personal observation of why the cost of living has increased that much more in the food industry?

Mr. McLEAN: I failed on that once dismally, and I would hate to try it again.

Mr. SALTSMAN: I thought I would take another run on it.

Co-Chairman Mr. BASFORD: Mr. Horner?

Mr. HORNER: Mr. McLean, with regard to packaging again. If I bought Maple Leaf weiners in Ontario, would the composition going into that weiner be the same as one manufactured say in Calgary?

Mr. McLEAN: Not necessarily. There is a range within which we will operate on composition and not locally. You have mentioned Calgary, and the price of acceptable raw materials in Calgary might be relatively different from say in Toronto. We have certain specified limits.

Mr. HORNER: Would that be true of hamburger?

Mr. McLEAN: No. The only one ingredient in hamburger is beef.

Mr. HORNER: In all ground hamburger?

Mr. McLEAN: There is only beef. You can vary the percentage of fat and lean for sure. I can see some people in this room who could answer better than I can but there may well be some regional or local preferences or habits so that there may be more fat in the hamburger—this is sheer guesswork—in the Maritimes than in Vancouver.

Mr. HORNER: What canned meats do you put out, such as Spam, Prem, Spork?

Mr. McLEAN: You have named all the wrong brands.

Mr. HORNER: What brands do you put out?

Mr. McLEAN: In the luncheon meat style you have mentioned, Klik and Kam.

Mr. HORNER: Would the composition of those meats be very much the same across Canada?

Mr. McLEAN: Yes.

Mr. HORNER: Exactly the same?

Mr. McLEAN: No, but very close. They also vary, but very much less in the case of Klik, which is a pure pork luncheon.

Mr. HORNER: One other question. I have read somewhere that in storehouses now processed meats are down 24 per cent from what they were a year ago.

Mr. McLEAN: Which is down?

Mr. HORNER: Meat in stores today; in other words, in warehouses. Is this figure relatively correct?

Mr. McLEAN: I am sorry, I cannot answer that.

Mr. HORNER: What about in your plant?

Mr. McLEAN: I cannot answer that either without getting the figures. I think our inventories would be substantially less. After all, we have only been operating for four weeks since a strike. I think your figures are for freezer storage of meat, which is generally the large bulk in the form of pork cuts which are stored in the fall and winter during the season of heavier production for

processing into cured meats during the summer. I think you are right that the freezer storage of pork is down from last year, but I don't know.

Co-Chairman Mr. BASFORD: This is a supplementary. What is your margin of profit on canned meats relative to the rest of the packing business.

Mr. McLEAN: I can get that for you but I cannot quote it out of my head. It would be higher than on fresh meats, but I would be guessing. Of course, I have not the habit of looking at recent figures, because we haven't had any.

Mr. HORNER: Would it be correct to describe that canned meat as the most profitable line in the business?

Mr. McLEAN: No, it wouldn't be, I would say.

Mr. HORNER: What is?

Mr. McLEAN: In the business?

Mr. HORNER: No, in the meat packing business.

Mr. McLEAN: I don't think I can answer that. Do you mean on margin per pound basis?

Mr. HORNER: Yes.

Mr. McLEAN: I would think that canned meat would come close. It might not be the most profitable but I think probably it would be on a per pound basis.

Co-Chairman Senator CROLL: We have asked all the major packers to answer this question, that is to give a statement covering both hogs and cattle and what they actually paid for carcasses during the first week of February 1965 and of 1966, and the last complete week of October 1966. They were also asked to state for these periods their wholesale prices for the major goods which you are offering. Will you make a note of that?

Mr. McLEAN: Yes. I will discuss it with Mr. James to get a little more definition.

Co-Chairman Senator CROLL: Let me get back to one more question. Between you and Burns and Swift you have, broadly speaking, 65 to 70 per cent of the market in Canada?

Mr. McLEAN: No.

Co-Chairman Senator CROLL: What do you say it is?

Mr. McLEAN: I am guessing; I am in the field of guesswork. If I had to hazard a guess I would say—

Co-Chairman Senator CROLL: Take 28 and add to that two more figures and what do you get?

Mr. McLEAN: Oh, between 50 and 55.

Co-Chairman Senator CROLL: All right, let us have 55.

Mr. McLEAN: But this is a guess.

Co-Chairman Senator CROLL: Now, in the course of the evidence before us the retailers told us that they had a method of mark-up. Some of the I.G.A. group and the wholesalers told us they had a method of mark-up and we quite understand that. You tell us that you cannot tell us what the mark-up is. Whatever it costs you try to sell for something more than that.

Mr. McLEAN: Right.

Co-Chairman Senator CROLL: So in the end what you do is, you fix the price to suit the market.

Mr. McLEAN: We ask a price. Whether we get it or not is another question.

Co-Chairman Senator CROLL: But you finally do get some price within a market.

Mr. McLEAN: Right.

Co-Chairman Senator CROLL: The witness this morning told us that their method of mark-up was to get the greatest number of dollars; and another one finally said they would get as much as they can. They, too, were fixing a price within a market. Is that correct? It lends itself to that interpretation, does it not?

Mr. McLEAN: Not to me, sir.

Co-Chairman Senator CROLL: What is your interpretation, then?

Mr. McLEAN: Well, the term "fixing the price within a market" is not descriptive of the process which takes place. Let us take beef, because it is simple and we do not have to worry about processing costs too much. We buy cattle. We know how many cattle were slaughtered in an area last week and try to estimate the supply of meat in that area. We buy cattle now which we are going to sell a few days hence. We try to estimate at what price will the market absorb the volume, available a few days hence, and therefore we try to buy at a price with a profit on that basis. But it is not fixing the price. We frequently misjudge this and may in fact be wrong, and the market might be stronger than we think and may make a dandy profit; but on the other hand our estimate of the supply may be wrong and we may finish up with a shocking loss. But this is a long way from fixing prices.

Co-Chairman Senator CROLL: But somebody fixed the price of the article.

Mr. McLEAN: It is fixed by negotiation.

Co-Chairman Senator CROLL: With the consumer?

Mr. McLEAN: With the retailer.

Co-Chairman Senator CROLL: But in the end you do not sell the article unless you are satisfied to sell it at such and such a price.

Mr. McLEAN: Oh, yes, we do. We have to sell the article, we cannot let it rot.

Co-Chairman Senator CROLL: Finally a price is fixed for the article.

Mr. McLEAN: A price is agreed upon.

Co-Chairman Senator CROLL: You and the retailer agree upon a price for the article.

Mr. McLEAN: Right.

Co-Chairman Senator CROLL: Now, is that the custom throughout the trade?

Mr. McLEAN: Yes.

Co-Chairman Senator CROLL: That in each case you and the retailer agree?

Mr. McLEAN: Right.

Co-Chairman Senator CROLL: Where does the consumer stand in it? You two have agreed that the article will sell for X dollars or cents. What position has the consumer in this?

Mr. McLEAN: In the final analysis, in the immediate sense you are talking about I will have to say that the consumer has no position. The retailer buys from us. We have agreed to sell for this and the retailer has agreed to a price, and he puts the mark-up to cover his expenses, of his store, and so on. That is the price the consumer is charged, and in the immediate short run sense that is true. In the long run sense, the consumer has the most potent effect on the price because he will switch from beef to pork, or perhaps to porridge, cheese or other foods. So that means that this will affect the demand situation to an extent that the price will have to be lowered if the articles are going to move; and the characteristic of meat articles is that they must move. It is not just a choice of whether you sell, but what price you put on to move the available supply.

Co-Chairman Senator CROLL: Of course I realize what you are saying, but in view of the fact, and the figures are here, that the price of bacon went up and up, and the people complained, they were buying nevertheless—they had been told this was the thing to do and they continued to buy it.

Mr. McLEAN: They were buying less of it; that is why the price went up, because there was less to be offered.

Co-Chairman Senator CROLL: Less to be offered?

Mr. McLEAN: Yes.

Co-Chairman Senator CROLL: Your cost was less at a certain time and the retail price was higher at that time.

Mr. McLEAN: I am sorry, sir, but that is not quite right. At the time you are talking about we were not operating, it was not our price.

Co-Chairman Senator CROLL: Perhaps you were not operating but the others were and if you had been there you probably would have been operating in the same way.

Senator THORVALDSON: Mr. Chairman, perhaps that is the reason why the price of bacon did go up as it did for a few months, because there must have been a shortage of bacon at that time and perhaps that shortage could have been caused by the fact that Canada Packers Limited were out of business for a period of a few months. Isn't that the answer?

Mrs. MACINNIS: Why is it still up?

Mr. McLEAN: It is on its way down.

Co-Chairman Senator CROLL: To some extent there is a basis for saying that, but at the same time I checked two or three times—

Co-Chairman Mr. BASFORD: I think we are having a debate here and should be having an examination.

Co-Chairman Senator CROLL: No. I do not think that Canada Packers goods were ever off the shelf during all the time they were not operating.

Mr. McLEAN: That is not so, sir. They were completely off the shelf. You don't keep meats on the shelf for three and a half months.

Co-Chairman Mr. BASFORD: Have you another question, Senator Croll?

Co-Chairman Senator CROLL: In any event, you say that in so far as meats are concerned the price is usually fixed between yourself and the retailer.

Mr. McLEAN: That is a question of bargaining.

Co-Chairman Senator CROLL: Yes, and it carries through the industry.

Mr. McLEAN: Well, the bargaining process is carried through the industry. It is an individual transaction. This is a habit of the industry.

Co-Chairman Mr. BASFORD: If there are no further questions, I want to thank you most sincerely, Mr. McLean for appearing with Dr. Clark on behalf of your company and for the brief you have presented this afternoon, and also for the lucid answers you have given to the questions, which have been extremely helpful.

The committee adjourned.

APPENDIX "B"

SWIFT

FINANCIAL INFORMATION

	1960	1961	1962	1963	1964	1965
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Livestock and Raw Materials	72.7	74.6	75.0	75.8	74.7	75.3
Wages, Salaries & Employee Benefits *	12.7	12.2	12.0	12.0	12.3	11.9
Freight on Sales	2.9	2.8	2.8	2.4	2.3	2.3
Supplies	4.2	4.0	3.8	4.0	4.0	3.8
Other Expenses	4.8	5.0	4.8	4.5	4.6	4.6
Income and Other Taxes	1.6	1.0	1.0	1.0	1.2	1.3
Profit	1.1	.4	.6	.3	.9	.8
Return on Assets Employed	6.8	2.3	3.6	1.9	5.1	4.6
* Number of Employees	4922	4975	4787	4788	4927	4977

TORONTO MEAT PACKING PLANT - BASE LABOUR RATES

	1960	1961	1962	1963	1964	1965	1966	1967	1968
MALE	1.85	1.91	1.96	2.01½	2.07½	2.12½	2.37½	2.57½	2.67½
Index	100	103.3	106.0	109.5	112.1	114.9	128.4	138.5	144.5
FEMALE	1.72	1.78	1.83	1.88½	1.94½	1.99½	2.24½	2.44½	2.54½
Index	100	103.5	106.5	109.0	113.0	116.0	131.0	142.2	148.0

APPENDIX B-1 SWIFT

ADVERTISING & PROMOTION - FOOD PRODUCTS ONLY

	1962	1963	1964	1965
	$	$	$	$
Advertising Cost per cwt.	.25	.22	.19	.22
Promotion " " "	.15	.17	.19	.16
Advtg. & Promotion Cost per cwt.	.40	.39	.38	.38
Advertising Cost per $ sales	.007	.006	.005	.006
Promotion " " " "	.004	.005	.006	.005
Advtg. & Prom. Cost per $ sales	.011	.011	.011	.011

APPENDIX "C" PAGE 1 SWIFT

TORONTO - CHOICE STEERS - 1965-66

W.E.	CDA LIVE CHOICE STEERS	SWIFT AVG. SELLING PRICE * CHOICE CARC.	CDA REPORTED TOR. CHOICE SALE PRICE LOW	HIGH	AVG.
Nov.7/64	23.00	40.02	38½	42	40.4
14	23.50	40.47	39	42	40.4
21	23.50	40.96	39½	42	40.6
28	23.50	40.94	39½	42	40.8
Dec.5	23.50	40.95	39½	42	40.8
12	23.50	40.95	39½	42	40.8
19	23.50	40.93	39½	42½	40.9
26	23.50	40.98	39½	42½	40.9
31	23.50	40.94	39½	42	40.8
Jan.9	23.50	40.97	39½	42	40.8
16/65	23.50	40.97	40	42	41.0
23	23.50	41.00	40	42	41.1
30	23.50	41.02	40	43	41.5
Feb.6	23.50	41.02	40	43	41.5
13	23.50	41.48	40	43	41.5
20	23.50	41.53	41	44	41.8
27	23.91	41.57	41½	44	42.2
Mar.6	24.00	41.58	41½	44	42.3
13	24.00	41.57	41	44	42.0
20	24.00	42.01	41	44	42.1
27	24.00	42.00	41½	44	42.1
Apr.3	24.00	42.01	41½	44	42.3
10	24.00	42.01	41	43½	42.2
17	24.00	42.03	41½	43½	42.3
24	24.00	42.01	41½	43½	42.3
May 1	24.00	41.63	41½	43	42.2
8	24.00	41.59	41½	43½	42.2
15	24.70	42.57	42	44	42.6
22	25.00	43.55	42½	45	43.6
29	25.88	44.56	43½	46	44.6
June5	26.22	44.62	44½	46½	45.0
12	27.00	45.56	45	47	46.0
19	27.00	45.61	45½	48	46.6
26	27.00	45.60	45	47½	46.1
July3	27.00	45.56	45	47½	46.0
10	27.00	45.60	45½	47½	46.2
17	27.00	45.53	45½	47	46.0
24	26.67	45.58	45½	47	46.0
31	26.50	45.52	45	47	45.9
Aug.7	26.50	45.53	45	47	45.9
14	26.50	45.51	44½	46½	45.6
21	26.00	45.03	43½	46	45.1
28	26.00	44.51	43½	46	44.9
Sept.4	26.00	44.53	43½	46	45.0
11	26.00	44.51	43½	46	44.7
18	25.50	44.50	43	46	44.7
25	25.50	44.05	43	45½	44.5

PAGE 2 APPENDIX "C"

W.E.	CDA LIVE CHOICE STEERS	SWIFT AVG.SELLING PRICE * CHOICE CARC.	CDA REPORTED TOR. CHOICE SALE PRICE LOW	HIGH	AVG.
Oct.2	25.50	44.03	43	45½	44.3
9	25.50	43.60	43	45	44.3
16	25.50	43.57	43	45½	44.2
23	25.50	43.57	42½	45½	44.1
30	25.50	43.65	42½	45½	44.1
Nov.6/65	25.50	44.07	43½	45½	44.60
13	25.92	44.55	43½	46	44.60
20	26.41	45.56	44½	46½	45.30
27	26.50	46.53	44½	47½	46.10
Dec.4	26.00	46.11	45	47½	46.30
11	26.77	46.07	44½	47½	46.30
18	26.87	46.09	44½	47½	46.20
25	26.75	46.07	44½	48	46.30
Jan.1/66	27.00	47.04	45½	49	47.10
8	27.32	47.04	46½	49	47.60
15	27.50	47.05	46	49½	47.40
22	27.80	48.05	47½	51	48.70
29	28.21	49.75	49½	52	49.90
Feb.5	28.85	50.03	48	52	50.20
12	28.50	48.71	47	51	48.70
19	28.80	48.49	47½	51	48.50
26	28.50	48.50	47	51	48.40
Mar.5	28.85	48.40	47	51	48.40
12	28.73	48.43	47	51	48.40
19	28.24	47.97	46½	50	48.20
26	28.00	47.01	45½	49	47.70
Apr.2	28.00	46.59	46	49	47.30
9	28.00	46.55	46	49	47.20
16	27.78	47.02	45½	49	47.00
23	26.87	45.31	45	48	46.10
30	26.90	45.52	44½	48	45.80
May 7	26.80	45.51	44½	48	45.80
14	27.00	45.58	44½	47½	45.80
21	26.79	45.56	44½	47½	45.80
28	26.75	45.54	45	47½	46.00
June4	26.50	45.50	45	47½	45.90
11	26.40	45.46	44½	46½	45.50
18	26.00	44.64	44½	46	45.30
25	26.00	44.56	44	46	45.10
July2	25.32	43.62	43½	45½	44.50
9	25.45	43.27	43½	46	44.30
16	25.50	43.77	44	46	45.00
23	25.50	44.62	44	47	45.70
30	26.00	45.63	45½	47	46.20
Aug.6	25.50	45.76	45½	47	46.20
13	25.50	45.49	45	46½	45.60
20	25.50	44.59	44½	46½	45.30
27	25.75	45.16	44½	46½	45.30

PAGE 3 APPENDIX " C"

W.E.	CDA LIVE CHOICE STEERS	SWIFT AVG.SELLING PRICE * CHOICE CARC.	CDA REPORTED TOR. CHOICE SALE PRICE LOW	HIGH	AVG.
Sept.3	26.86	46.49	46	49	48.20
10	26.50	46.07	47½	50	48.30
17	27.36	47.09	47½	50	48.30
23	27.92	48.06	48	50	48.80
Oct.1	28.00	48.16	48	50	48.80
8	27.88	47.93	47½	50	48.20
15	27.75	47.54	46½	50	47.60

* Delivered Store Door Chain Stores, Toronto

APPENDIX D-1 PAGE 1 SWIFT

SWIFT FRESH PORK SELLING PRICES
DELIVERED CHAIN STORES - TORONTO
PERIOD W/E NOV.7/64 - OCT.29/66

W.E.	PRICE LOINS	PRICE N.Y. SHOULDERS	W.E.	PRICE LOINS	PRICE N.Y. SHOUL
Nov. 7 1964	50	31	Nov. 6	66	46
14	50	31	13	64	46
21	50	30	20	64½	47
28	50	31	27	65	48
Dec. 5	49	30½	Dec. 4	65	49
12	49	32	11	65	52
19	50	32	18	65	53
26	48	32	25	64	53
Jan. 2 1965	47	32	Jan. 1 1966	63½	53
9	47	32	8	64	53
16	48	32	15	63	53
23	47	32	22	63½	53
30	48	32	29	65	55
Feb. 6	49	33	Feb. 5	66	54½
13	49	35	12	66	54½
20	50	36	19	66½	55
27	49	35	26	66	56
Mar. 6	49	35	March 5	65	55
13	48	35	12	61½	54
20	48	35	19	58	50
27	47	34	26	55½	46
Apr. 3	47	34	April 2	54½	43½
10	46	34	9	54½	41
17	45	33½	16	52	40
24	45½	33	23	52	40
May 1	45	33	30	52	40
8	45½	33½	May 7	52	39½
15	45½	33	14	52	40
22	47	33	21	56	42
29	49	33½	28	64½	47
June 5	51	35	June 4	64½	47
12	57	38½	11	64	47
19	57½	38½	18	63½	46
26	61	40	25	64	47
July 3	60½	42	July 2	63½	46½
10	60	41	9	63½	46½
17	58	40	16	62	45
24	57	40	23	62½	45½
31	58	40	30	63	46½
Aug. 7	59	40	Aug. 6	63	46
14	58	41	13	63	47
21	58	41	20	65	47½
28	59	41	27	62½	48

APPENDIX D-1 PAGE 2 SWIFT

W.E.	PRICE LOINS	PRICE N.Y. SHOULDERS	W.E.	PRICE LOINS	PRICE N.Y. SHOULDERS
Sept. 4	58	40	Sept. 3	62	47
11	58	40	10	62½	47
18	58	40	17	64½	47
25	58	40	24	67	47
Oct. 2	59	41	Oct. 1	67	47
9	64	43	8	66½	46½
16	65	45	15	66	46½
23	67	47	22	66	46
30	67	48	29	65	46½

APPENDIX E PAGE 1 SWIFT

RELATION HOG PRICES TO
CERTAIN WHOLESALE PORK CUT PRICES AND PROCESSED
PORK SELLING PRICES
PERIOD - NOV/64 - OCT/66

TORONTO AREA - STORE DOOR - CHAINS

WEEKS	O.H.P. WKLY.GR A AVG	GREEN BELLIES 8/12	PREMIUM 1# SLICED BACON	GREEN HAMS 16 DN	F.C.PT. SKND HAMS	GREEN PICNICS HCKLS	SMOKED HCKLS PICNICS	GREEN BOSTON BUTTS	S.P. CRYO COTTAGE
1964									
Nov. 1	26.79	31	N/Avail.	40	N.Av.	28	N/Avail.	34	N.Av.
2	26.91	31	"	40	"	29	"	34	"
3	27.06	30½	"	40	"	29	"	34	"
4	27.70	29½	"	40½	"	29	"	34½	"
5	27.75	29½	"	42	"	30½	"	35	"
Dec. 1	27.47	29½	"	41	"	30	"	34½	"
2	26.61	29½	"	40½	"	29	"	34½	"
3	26.87	29½	"	41	"	29	"	33½	"
4	26.52	29½	62	41	50½	28	37	32½	44
1965									
Jan. 1	26.43	29½	62	40	50½	28	36	32½	44
2	26.88	30	62	40½	50½	27½	36	33	44
3	28.08	30	62	42	51½	29	37	34	44
4	27.77	32	63	42	51½	29	37	35	44
Feb. 1	28.66	33	64	42	50½	29½	37	37	45½
2	28.31	33	64	42	50½	29½	37	38	47
3	27.26	33½	64	42	50½	29	37	37½	48
4	27.86	33½	64	42	50½	29	37	37	49
5	27.35	33	64	42	50½	28¼	37	36	49
Mar. 1	27.36	34	65	43	50½	28½	37	36½	49
2	27.23	33	65	43½	50½	28½	37	36	49
3	27.83	32½	65	44½	52½	29	37	36	49
4	27.91	32½	65	43½	52½	29	38	36	49
Apr. 1	27.72	32½	65	43	51½	29	40	36	49
2	27.22	32½	65	42½	51½	29	38	36	49
3	27.52	35	65	43	51½	28½	38	35¼	49
4	27.94	36¾	65	43	51½	28½	37	35½	49
May 1	28.74	36½	67	43½	51½	29	39	36	49
2	29.71	37	67	44	52½	29½	39	36	49
3	30.60	39¾	68½	46	55½	31½	39	37	47
4	31.72	40	71	48	56½	33	40	39½	47
5	32.59	40½	75	48½	59½	32	40	39½	48½
June 1	34.25	42	78	50	62	32	43	40½	51
2	34.87	44½	81½	51	63	32	43	42	53
3	35.99	46	83	52	63	32	44	44	54
4	35.64	45	83	52	64	32	44	43½	56
July 1	35.18	47	83	52	64	32	43	43½	56
2	35.97	49½	83	52	64	32	43	43	56
3	36.38	51	83	52½	63	33	43	43½	56
4	36.41	52	81	52½	62	34	43	45	56
Aug. 1	35.86	52½	81	52½	62	35	46	45	56½
2	36.03	54	84	52½	61	34½	46	46	56½

APPENDIX E

PAGE 2

WEEKS	O.H.P. WKLY.GR A AVG	GREEN BELLIES 8/12	PREMIUM #1 SLICED BACON	GREEN HAMS 16 DN	F.C PT. SKND HAMS	GREEN PICNICS HCKLS	SMOKED HCKLS PICNICS	GREEN BOSTON BUTTS	S.P. CRYO COTTAGE
Aug. 3	36.64	54	84	52	60	34	45	45	58
4	37.00	52	87	51	60	34	43½	44	58
5	36.71	48	84	49	58	34	43½	43½	58
Sept 1	36.46	48	84	48	58	34	42½	44	58
2	36.28	49	82	48	57	34½	42½	46	58
3	36.77	51	82	48	58	35½	44½	47	58
4	37.21	49	83	48	58	36	45	48	58
Oct. 1	36.66	48	84	48	58	38	48	49	60
2	35.89	48	85	49	58	38½	48	50	62
3	35.40	47	84	49	59	38	48	50	62
4	35.15	47½	84	47½	57½	39	50	50	62
Nov. 1	35.87	46	82	51	62	41	50	50	61
2	36.78	46	81	55	67½	41½	51	53	61
3	37.89	47	81	56	70	44½	53	56	62
4	38.80	50	81	58	71	45	56	56½	64
5	40.07	56	85	60	71½	47	57	56½	69½
Dec. 1	41.96	53	91	62	72	45	58	55	69½
2	41.56	53	91	61	72	43	56	53	70½
3	41.43	53	91	60	72	43	55	54	69
4	42.23	53	91	59½	75	43	54	53	69
1966									
Jan. 1	41.43	53	91	60	75	41½	53	51½	67
2	42.61	53½	90	60	75	41½	53	51½	66
3	42.98	54	87	61	77	43	54	53	65
4	43.03	54	89	62	75	45	56	55	68
Feb. 1	43.96	55	99	62½	75	48	57	58	70
2	43.82	55	99	62½	75	48	57½	58	71½
3	43.06	53½	95	62	75	48½	58	58	72
4	41.14	53	95	61	73	48	57	55	72
5	39.87	51	100	58½	71	48	57	55	70
Mar. 1	37.05	47	99	56	67	43	54	52	68
2	34.51	44	96	52	67	40	53	49	66
3	34.15	43	90	50	67	39	50	48	63
4	34.20	44	79	48	64	35	50	39½	61
Apr. 1	33.11	47½	80	45	60	35	48	40	56
2	32.90	48	80	45	61	36	48	41	53
3	32.39	48	88	46	60	37	49	41½	51
4	32.47	47	88	47	61	37	49	41	53
May 1	34.31	47	88	47	61	38	48	41½	55
2	37.37	49	86	50	61	40½A	51	44	54
3	37.53	50½	88	51	61	41	52	45	57½
4	37.60	54	89	51	63	42½	53	46	57½
5	37.86	54	93	50	63	42	53	46	57½

APPENDIX E

PAGE 3

WEEKS	O.H.P. WKLY.GR A AVG	GREEN BELLIES 8/12	PREMIUM #1 SLICED BACON	GREEN HAMS 16DN	F.C.PT SKND HAMS	GREEN PICNICS HCKLS	SMOKED HCKLS PICNICS	GREEN BOSTON BUTTS	S.P. CRYO COTTAGE
June 1	38.27	54½A	93	49½	63	42	53	47	58½
2	38.24	54	93	48½	63	42	53	49	59½
3	38.45	53	91	48	61	40½	53	49	60½
4	37.63	52	91	47	61	40	53	49	61½
July 1	35.55	51	91	47½	62	38	53	49	61½
2	34.80	51	91	49	62	37	53	49	61½
3	34.43	51	92	51	64	37	53	51	63½
4	34.69	52	94	51	65	36	53	53	66½
Aug. 1	33.55	56	95	51	66	36½A	53	56	68½
2	33.87	57½A	98	52	66	37	54	57	73½
3	33.47	57	104	51	67	36	54	57	73½
4	33.67	55	103	46½A	67	35½A	54	55	73½
5	33.86	53	103	45	67	35	51	55½A	73½
Sept 1	33.78	54	103	45	67	35	51	55	73½
2	33.52	54½A	103	46	67	36	51	55	73½
3	33.33	53	103	46½	63	37½A	51	54½	71
4	33.39	50½A	98	47½A	63	39	53	52½	71
Oct. 1	34.00	50	98	47½A	63	39½A	53	51½A	68
2	33.66	49	94	49	64	41	54	52	67
3	33.29	47	94	48	63	41	54	49	67
4	33.78	45	93	47	63	39	53	46	67

SUBMISSION TO

THE SPECIAL JOINT COMMITTEE OF THE SENATE

AND HOUSE OF COMMONS ON

CONSUMER CREDIT

(PRICES)

EXHIBITS

CANADA PACKERS LIMITED
TORONTO

EXHIBIT NO. 2

CANADA PACKERS LIMITED

STATEMENT OF CONSOLIDATED PROFIT AND LOSS

FISCAL YEARS 1962 – 1966

	1966	% of Sales	1965	% of Sales	1964	% of Sales	1963	% of Sales	1962	% of Sales
Invoice value of sales	$722,128,000		$636,929,000		$618,562,000		$606,241,198		$574,803,230	
Less transport charges and duty	23,908,000		21,398,000		18,592,000		17,227,661		16,327,351	
Value of sales – f.o.b. plants	698,220,000	100.00%	615,531,000	100.00%	599,970,000	100.00%	589,013,537	100.00%	558,475,879	100.00%
Cost of livestock and all other raw products	528,342,000	75.67%	457,900,000	74.39%	451,547,000	75.26%	444,012,176	75.38%	419,779,409	75.17%
Packages and materials	30,642,000	4.39	30,767,000	5.00	30,188,000	5.03	28,772,417	4.89	27,615,179	4.94
Salaries, wages, profit sharing plan and employee welfare	76,730,000	10.99	70,221,000	11.41	67,655,000	11.28	65,908,308	11.19	64,923,709	11.62
Selling and operating expenses	39,939,000	5.72	35,368,000	5.75	32,887,000	5.48	32,518,007	5.52	29,184,519	5.23
Depreciation of fixed assets	5,241,000	.75	5,183,000	.84	4,726,000	.79	4,147,144	.70	3,834,267	.69
Provision for taxes:										
Municipal and other taxes	2,038,000		1,776,000		1,860,000		1,713,234		1,560,153	
Taxes on income	7,406,000		7,176,000		5,680,000		6,485,000		6,507,000	
	9,444,000	1.35	8,952,000	1.45	7,540,000	1.26	8,198,234	1.39	8,067,153	1.44
	690,338,000	98.87%	608,391,000	98.84%	594,543,000	99.10%	583,556,286	99.07%	553,404,236	99.09%
Profit from operations	7,882,000	1.13%	7,140,000	1.16%	5,427,000	.90%	5,457,251	.93%	5,071,643	.91%
Income from investments	409,000		431,000		349,000		279,082		201,646	
Profits and losses from disposals of fixed assets and investments	298,000		552,000		552,000		148,886		(125,673)	
	8,589,000	1.23%	8,123,000	1.32%	6,328,000	1.05%	5,885,219	1.00%	5,147,616	.92%
Deduct interest of minority shareholders in income of subsidiary companies	68,000		11,000		114,000		121,940		76,013	
NET PROFIT for the year	$ 8,521,000		$ 8,112,000		$ 6,214,000		$ 5,763,279		$ 5,071,603	
RETURN ON INVESTMENT										
(Capital investment equals depreciated fixed assets plus investments, plus working capital.)	[illegible].7%		10.0%		8.3%		8.1%		7.5%	

EXHIBIT NO. 3

CANADA PACKERS LIMITED

STATEMENT OF PROFIT & LOSS

CANADIAN LIVESTOCK DIVISION

FISCAL YEARS 1962 - 1966

	1962	% of Sales	1963	% of Sales	1964	% of Sales	1965	% of Sales	1966	% of Sales
Value of sales - F.O.B. plants	$316,400,085	100.00%	$330,270,965	100.00%	$330,131,674	100.00%	$345,943,166	100.00%	$392,128,461	100.00%
Cost of livestock and all other raw products	248,392,659	78.5	261,361,168	79.1	259,450,335	78.6	266,267,749	77.0	309,235,905	78.9
Packages and materials	12,643,039	4.0	12,786,869	3.9	13,680,776	4.1	14,628,617	4.2	15,029,788	3.8
	$ 55,364,387	17.5	$ 56,122,928	17.0	$ 57,000,563	17.3	$ 65,046,800	18.8	$ 67,862,768	17.3
Expenses	52,046,510	16.4	52,822,572	16.0	55,115,532	16.7	60,403,180	17.5	64,602,696	16.5
Profit before Income Taxes	3,317,877	1.1	3,300,356	1.0	1,885,031	.6	4,643,620	1.3	3,260,072	.8
Income Taxes	1,853,165	.6	1,869,104	.6	990,887	.3	2,442,213	.7	1,575,654	.4
Profit from Operations	1,464,712	.5	1,431,252	.4	894,144	.3	2,201,407	.6	1,684,418	.4

	1962	1963	1964	1965	1966
Sales Volume in lb.	903,186,804 lb.	888,796,342 lb.	930,913,443 lb.	1,013,637,802 lb.	1,043,426,514 lb.
Profit per lb. from operations	0.1622¢/lb.	0.1610¢/lb.	0.0961¢/lb.	0.2172¢/lb.	0.1911¢/lb.
Per lb. of Sales Volume	¢/lb.	¢/lb.	¢/lb.	¢/lb.	¢/lb.
Cost of livestock and all other raw products	27.50¢	29.40¢	27.87¢	26.27¢	29.64¢
Cost of packages and materials	1.40¢	1.44¢	1.47¢	1.44¢	1.44¢
Expenses	5.76¢	5.94¢	5.92¢	5.96¢	6.19¢
Profit before Income Taxes	.37¢	.37¢	.20¢	.46¢	.31¢
Selling Price	35.03¢	37.15¢	35.40¢	34.13¢	37.58¢

EXHIBIT NO. 4

APPROXIMATE DISPOSITION OF AN AVERAGE BEEF ANIMAL IN CANADA

SOURCE CANADA PACKERS LIMITED ESTIMATE

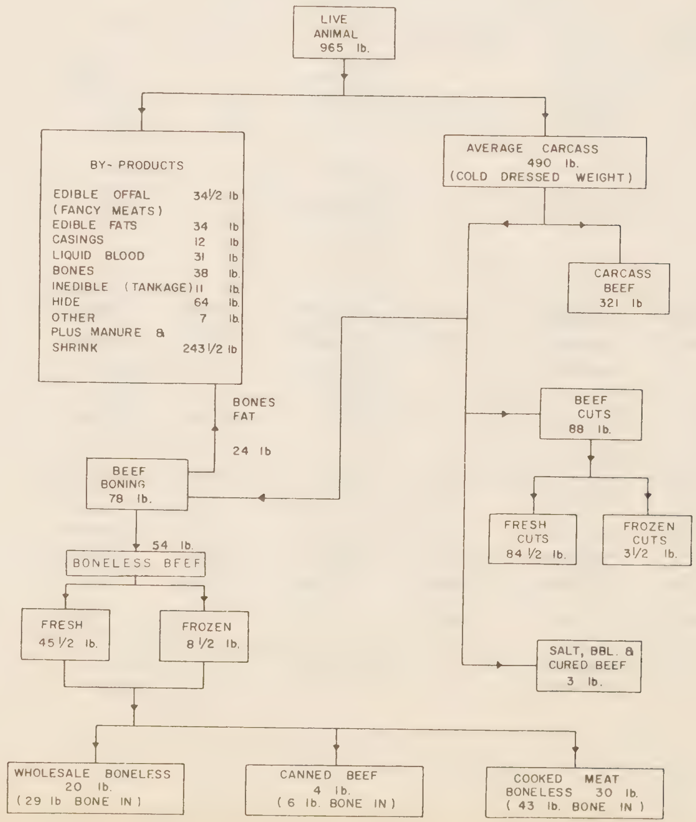


EXHIBIT NO. 5

TYPICAL BEEF COST SHEET
CHOICE STEER WEIGHING 1050 LBS. ALIVE
CARCASS WEIGHT (57% of 1050) 598½ lb.

COST OF LIVE ANIMAL

	Live Animal Weight	(1) Price/lb.	Cost per Animal
Live Animal	1050	28.72¢	$301.56
Buying Expense			.60
Stockpen Expense			.43
Slaughter Labour			1.80
Allowance for Condemnation			.43
			304.82
(1) Less net returns from by-products produced			29.51
Cost of 598½ lb. carcass			$275.31

COST OF CARCASS

	Weight	per lb.	Total
Carcass	598½	46.00¢	$275.31
Cooler Labour		0.28	1.68
Services, Maintenance, Supplies, Plant Expense, Loading, Municipal Taxes, Office		0.90	5.39
Fixed Charges		0.40	2.39
		47.58	284.77
Selling and Delivery (Toronto Area)		1.05	6.28
Total Cost of Carcass		48.63¢	$291.05
(1) Wholesale Market Toronto		48.95	292.96
Difference		+ 0.32	+ 1.91

Source:
(1) Toronto Price, Livestock & Meat Trade Report, Canada Department of Agriculture, February 1956.

EXHIBIT NO. 5

Sheet 2

BY-PRODUCTS RETURN - CHOICE STEER 1,050 LBS.

February, 1966.

	Weight	Selling Price Cents per lb.	Selling Cost Cents per lb.	Package Cost	Processing Cost Cents per lb.	Net Value Cents per lb.	Net Value Per Head
Edible By-Products							
Liver	10.5	35.00	1.18	1.20	3.45	29.17	$ 3.05
Heart	3.8	34.00	1.18	1.00	3.45	28.37	1.08
Tongue S.C.	4.1	38.00	1.18	1.00	3.45	32.37	1.32
Trim Tongue Gullet	4.0	6.00	.25	.70	3.45	1.60	.06
Tail	2.1	25.00	1.18	1.50	3.45	18.87	.40
Kidney	2.0	33.00	1.18	.75	3.45	27.62	.55
Sweetbreads	.1	49.00	1.18	2.40	3.45	41.97	.04
Cheekmeat	2.8	38.00	.25	.70	3.45	31.68	.89
Headmeat	.2	38.00	.25	.70	3.45	31.68	.06
Lipmeat	.8	12.00	.25	.70	3.45	7.85	.06
Weasandmeat	.5	35.00	1.18	.70	3.45	29.67	.15
Tripe raw cleaned	15.5	8.00	.25	.70	3.45	3.55	.55
Brains	.4	49.00	1.18	1.00	3.45	43.37	.17
Export Lungs	4.7	10.00	.25	.85	3.45	5.45	.26
Edible Fats	34.4	12.30	-	-	1.50	10.80	3.71
TOTAL EDIBLE BY-PRODUCTS	88.9						$12.35
Inedible By-Products							
Spleens	1.2	7.00	.25	-	3.45	2.60	.03
Hide (Native Steer)	73.0	20.00			1.30	18.70	13.65
Casings	10.0	.19			.08	.10	1.05
Blood Liquid	34.0	4.50			1.70	2.80	.95
Head Bones Green	17.0	1.80			.50	1.30	.22
Other Bones Green	16.0	2.00			.50	1.50	.24
Tankage	22.0	4.50			3.00	1.50	.33
Tallow, Inedible	8.0	8.60			3.10	5.60	.45
Glands - Suprarenal	.8	24.00			4.00	20.00	.16
Switch	.5	8.00			-	8.00	.04
Liquid Gall	.6	6.50			.50	6.00	.04
TOTAL INEDIBLE BY-PRODUCTS	183.1						$17.16
TOTAL ALL BY-PRODUCTS	272.0						$29.51

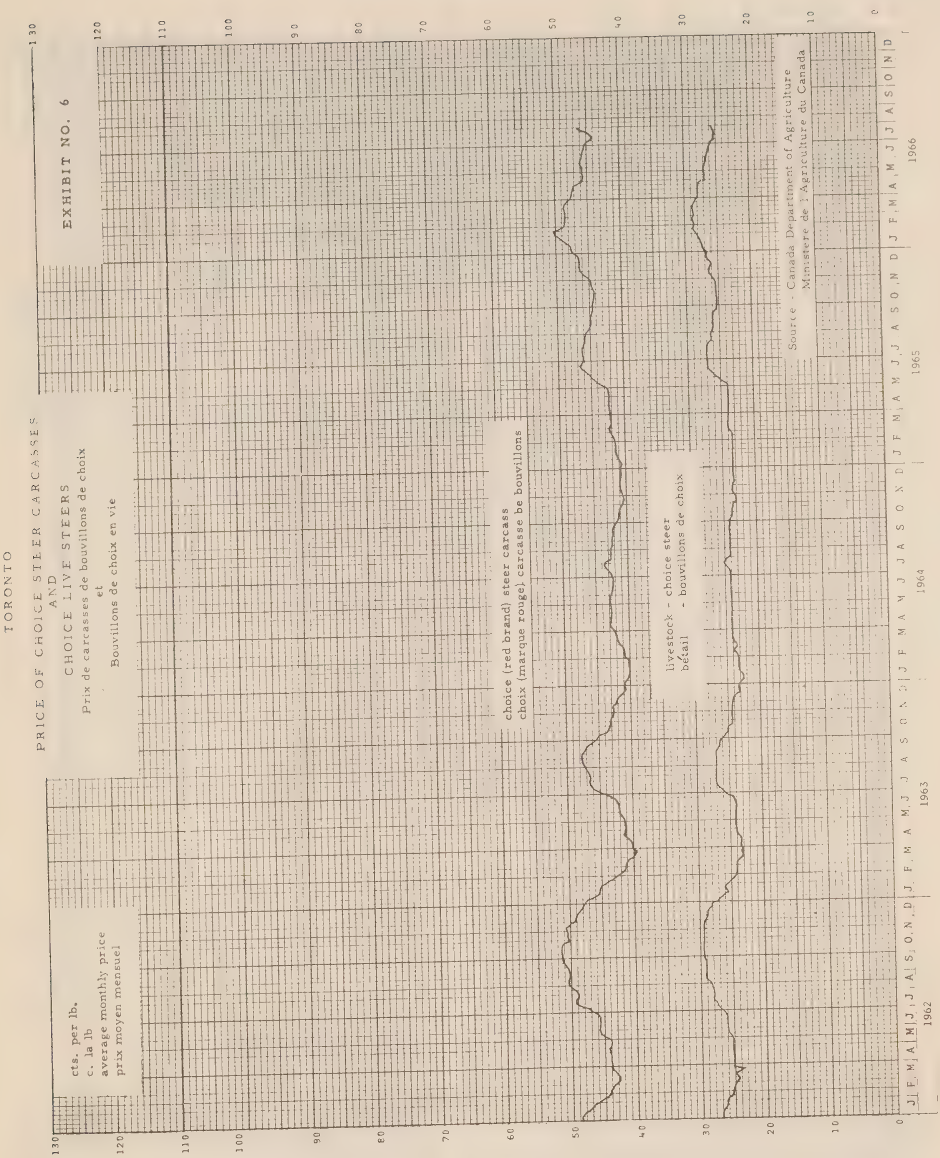


EXHIBIT NO. 6
TORONTO
PRICE OF CHOICE STEER CARCASSES
AND
CHOICE LIVE STEERS
Prix de carcasses de bouvillons de choix
et
Bouvillons de choix en vie
cts. per lb.
c. la lb
average monthly price
prix moyen mensuel
choice (red brand) steer carcass
choix (marque rouge) carcasse be bouvillons
livestock - choice steer
bétail - bouvillons de choix
Source - Canada Department of Agriculture
Ministere de l'Agriculture du Canada
1962
1963
1964
1965
1966

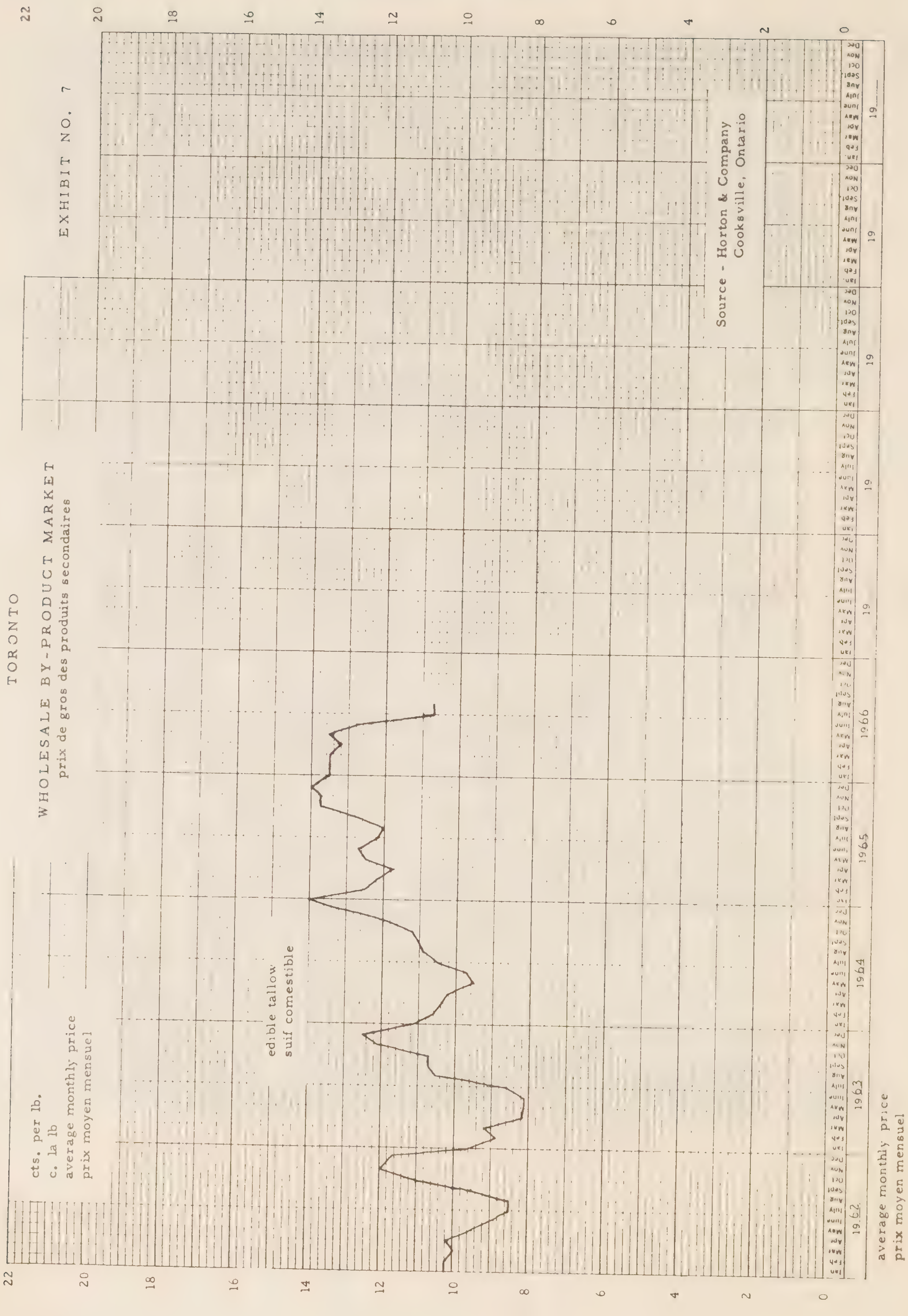


EXHIBIT NO. 7
TORONTO
WHOLESALE BY-PRODUCT MARKET
prix de gros des produits secondaires
cts. per lb.
c. la lb
average monthly price
prix moyen mensuel
edible tallow
suif comestible
Source - Horton & Company
Cooksville, Ontario
1962
1963
1964
1965
1966
19
19
19
19
19
average monthly price
prix moyen mensuel

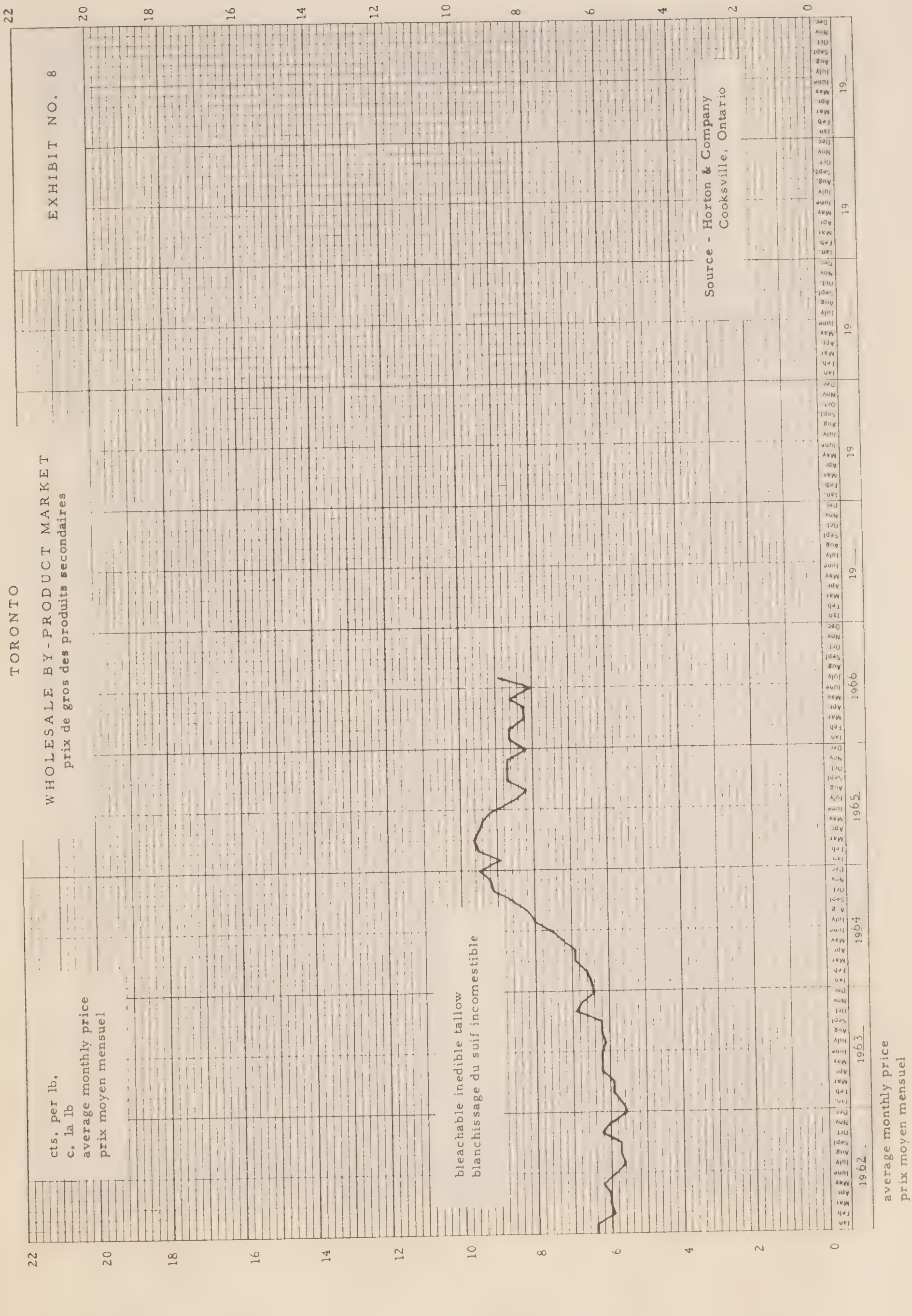
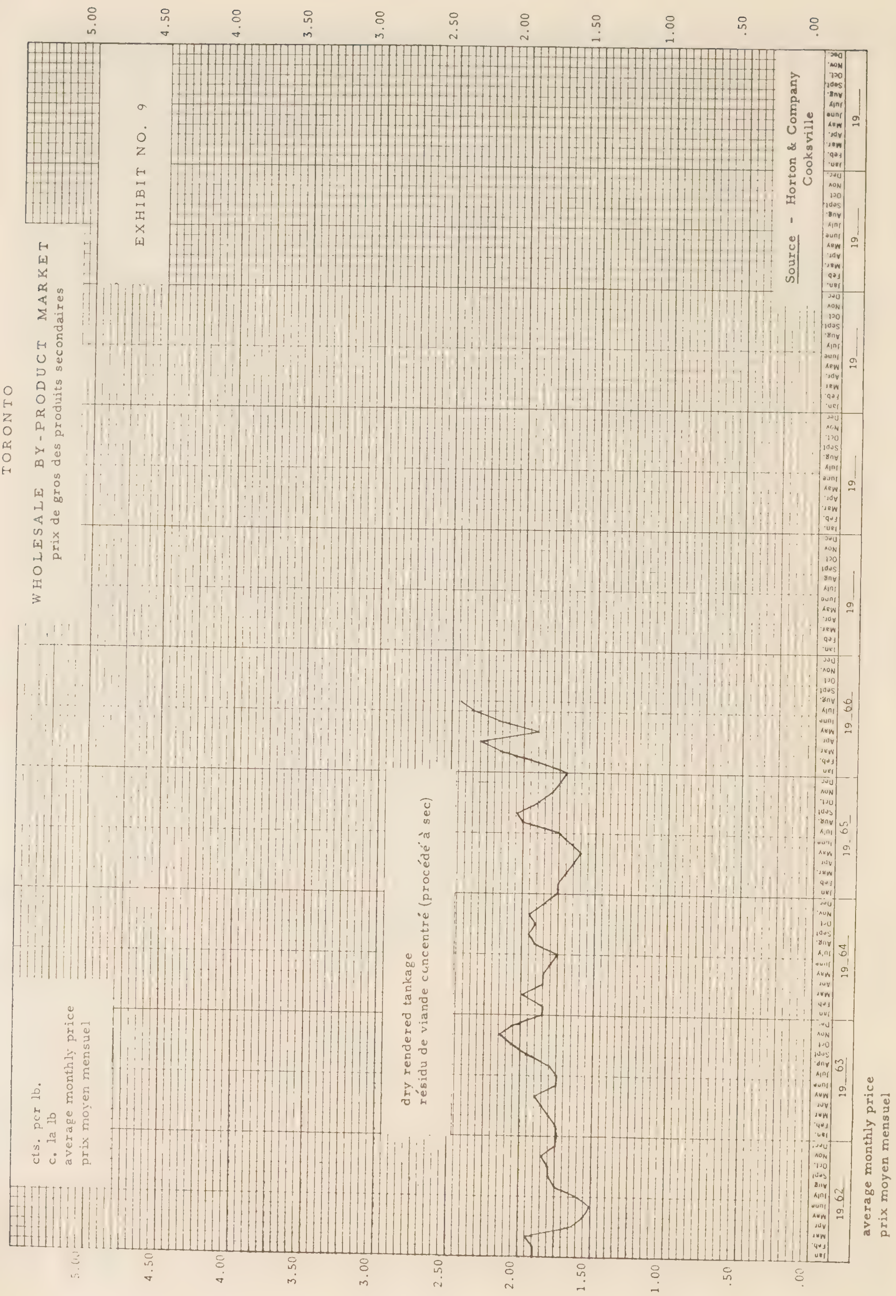


EXHIBIT NO. 8
TORONTO
WHOLESALE BY-PRODUCT MARKET
prix de gros des produits secondaires
cts. per lb.
c. la lb
average monthly price
prix moyen mensuel
bleachable inedible tallow
blanchissage du suif incomestible
Source - Horton & Company
Cooksville, Ontario
1962
1963
1964
1965
1966
average monthly price
prix moyen mensuel


TORONTO
WHOLESALE BY-PRODUCT MARKET
prix de gros des produits secondaires
EXHIBIT NO. 9
cts. per lb.
c. la lb
average monthly price
prix moyen mensuel
dry rendered tankage
résidu de viande concentré (procédé à sec)
Source - Horton & Company
Cooksville
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
.50
.00
19 62
19 63
19 64
19 65
19 66
average monthly price
prix moyen mensuel

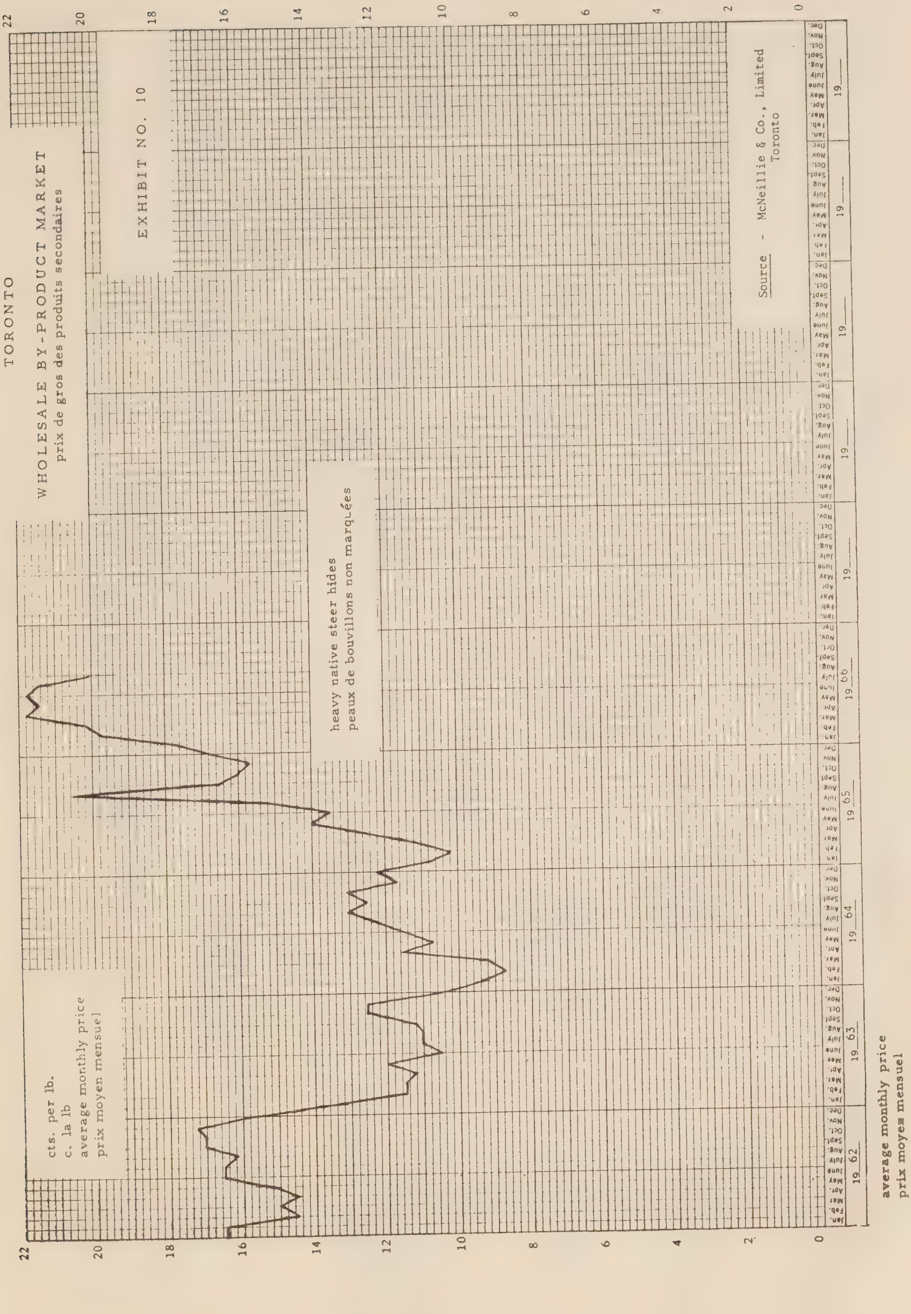
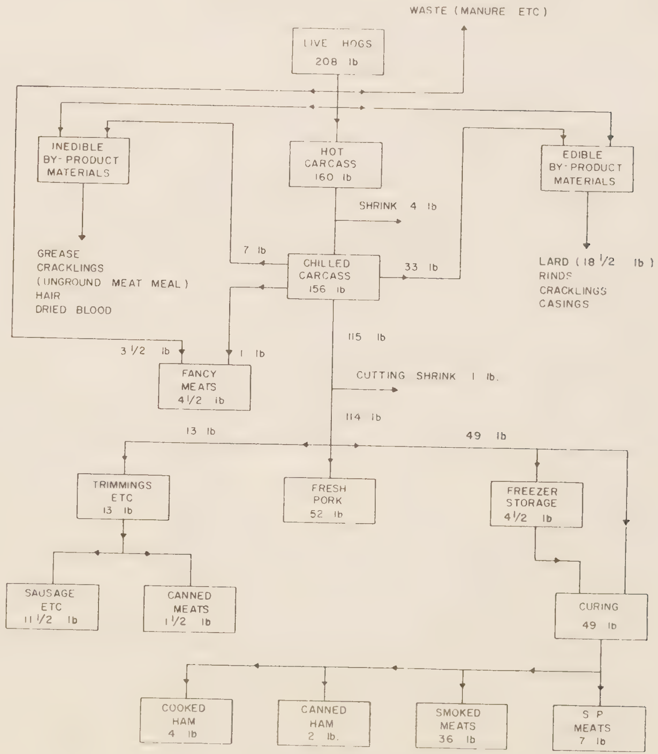

TORONTO
WHOLESALE BY-PRODUCT MARKET
prix de gros des produits secondaires
EXHIBIT NO. 10
heavy native steer hides
peaux de bouvillons non marquées
cts. per lb.
c. la lb
average monthly price
prix moyen mensuel
Source - McNeillie & Co., Limited
Toronto
19 62
19 63
19 64
19 65
19 66
average monthly price
prix moyen mensuel

EXHIBIT NO. 11

APPROXIMATE DISPOSITION OF AN AVERAGE HOG IN CANADA

SOURCE CANADA PACKERS LIMITED ESTIMATE



WEIGHTS OF PRODUCTS ARE EXPRESSED
AS EQUIVALENT BONE IN WEIGHT

EXHIBIT NO. 12

TYPICAL HOG COST SHEET
GRADE 'B' HOG CARCASS WEIGHING 156 LB.
AND PRODUCING 101 LB. OF PRIMAL CUTS

PRODUCTION COST OF PRIMAL CUTS

	Weight	Cost per Lb.	Cost per Animal
Carcass	156	(1) 37.53¢	$58.55
Labour - Slaughter & Cutting			1.79
Services Maintenance - Supplies & Plant Expense			1.31
Fixed Charges			0.37
Allowance for Condemnations			0.66
			$62.68
Less			
(2) Net Returns from By-Products of Slaughter		$1.14	
(2) Net Returns from By-Products of Cutting		$8.09	9.23
Difference			$53.45
Value of 101 lb. of Primal Cuts			$53.45
Average Value per lb.		52.92¢	

(3) QUOTED VALUE OF PRIMAL CUTS ON BROKERS WHOLESALE MARKET

Primal Cut	Weight lb. /Hog	Brokers Market ¢/lb.	Total
Hams	32.6	48.25¢	$15.73
Bellies	20.6	54.50	11.23
Loins	22.5	62.00	13.95
Butts	12.3	46.00	5.65
Picnics	13.0	41.00	5.33
	101.0		$51.89

Source:

(1) Toronto Price, Livestock & Meat Trade Report, Canada Department of Agriculture, June 1966.
(2) Attached Sheet No. 2.
(3) Toronto Price, Weekly Bulletin, R.A. Chisholm & Company Limited.

EXHIBIT NO. 12
Sheet 2

NET VALUE OF BY-PRODUCT FOR 'B' GRADE HOG - CARCASS WEIGHT 156 LB.

BY-PRODUCTS OF SLAUGHTER

	Weight per Hog	Selling Price ¢/lb.	Processing Packaging & Selling Expense ¢/lb.	Net Value ¢/lb.	Net Return per hog
Casings	1.37	37.70	35.10	2.60	$ 0.036
Hair	0.25	12.50	5.50	7.00	0.017
Blood	1.25	9.00	3.50	5.50	0.069
Glands	0.208	34.59	10.82	23.77	0.050
Gullet	0.50	2.00	6.43	- 4.43	- 0.022
Gullet Trim	0.08	25.00	6.43	18.37	0.015
Stomach Linings	0.20	19.00	6.91	11.09	0.022
Stomach	1.18	5.50	6.91	- 2.41	- 0.028
Heart	0.46	36.00	7.04	28.96	0.133
Liver Regular	2.56	31.00	7.43	23.57	0.603
Reject	0.26	19.00	7.00	12.00	0.031
Lungs	1.10	9.75	7.29	2.46	0.027
Weasands	0.06	25.00	6.43	18.57	0.011
Spleen	0.24	13.00	6.95	6.05	0.014
Killing Fats (50%)	2.90	-	-	5.75	0.166
Total By-Products of Slaughter	12.62				$ 1.14

BY-PRODUCTS OF CUTTING

	Weight per Hog	Selling Price ¢/lb.	Processing Packaging & Selling Expense ¢/lb.	Net Value ¢/lb.	Net Return per hog
Side Ribs	4.8	62.00	2.91	59.09	2.83
Hocks	2.6	18.00	2.91	15.09	.39
Front Feet	1.4	7.00	2.91	4.09	.06
Heads	8.9	-	-	7.55	.67
Tongue	.6	42.00	6.91	35.09	.21
Kidney	.6	41.00	7.31	33.69	.20
Tails	.5	23.00	2.91	20.09	.10
Trimming - 85%	1.4	48.50	2.91	45.59	.64
- 50%	.5	31.00	2.91	28.09	.14
Rinds	4.7	11.00	2.91	8.09	.38
Neckfat s/off	2.9	26.50	2.91	23.59	.68
Neckbones	1.8	5.91	2.91	3.00	.05
Riblets	1.0	20.00	2.91	17.09	.17
Fin Bones	.2	14.91	2.91	12.00	.02
Hind Feet	2.5	-	-	1.38	.03
Leaf Lard	3.9	-	-	10.46	.41
Back Fat s/off	5.8	-	-	9.89	.57
Shoulder Fat	3.9	-	-	9.89	.38
Other Fat	2.0	-	-	7.47	.15
Scrap	.8	-	-	1.15	.01
Total By-Products of Cutting	5.08				$ 8.09

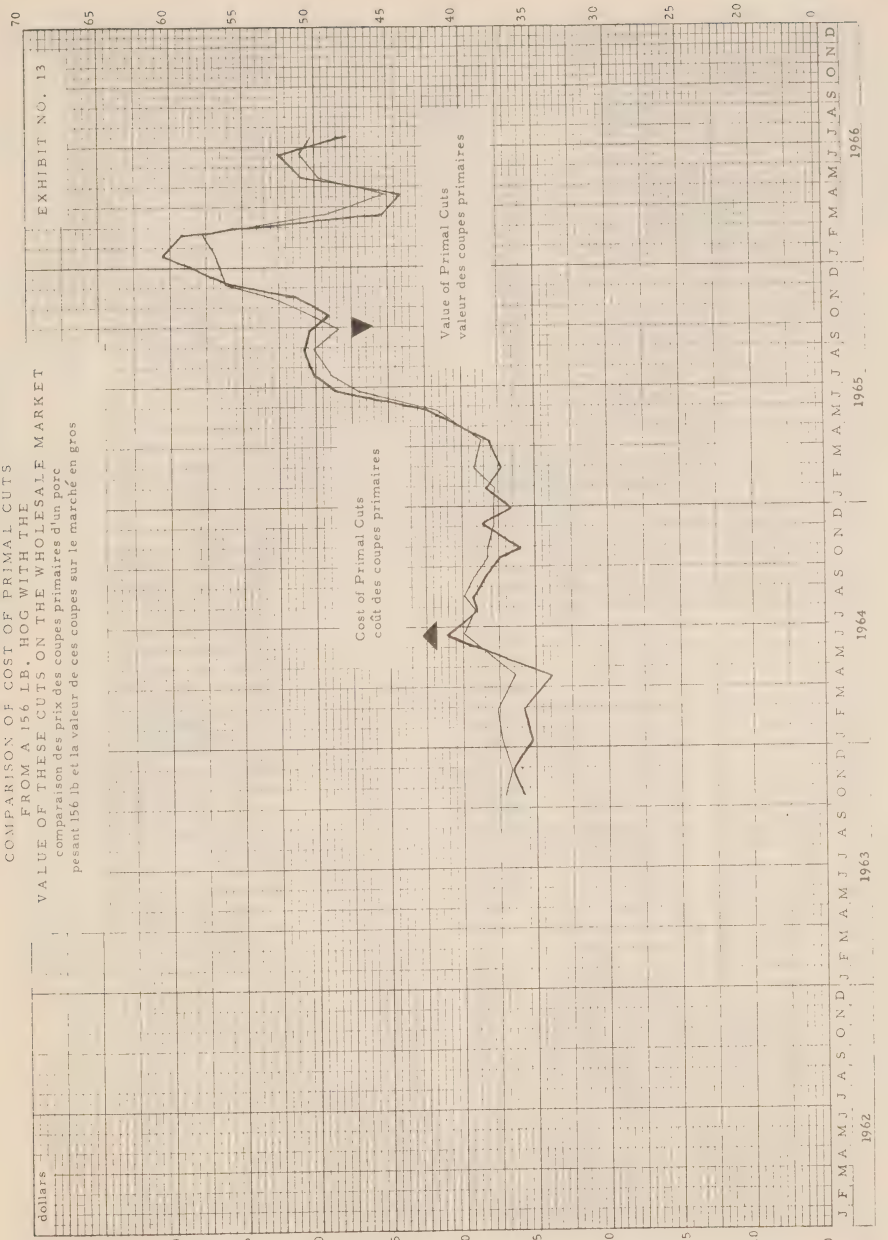


EXHIBIT NO. 13
COMPARISON OF COST OF PRIMAL CUTS
FROM A 156 LB. HOG WITH THE
VALUE OF THESE CUTS ON THE WHOLESALE MARKET
comparaison des prix des coupes primaires d'un porc
pesant 156 lb et la valeur de ces coupes sur le marché en gros
Value of Primal Cuts
valeur des coupes primaires
Cost of Primal Cuts
coût des coupes primaires
dollars
70 65 60 55 50 45 40 35 30 25 20 0
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D
1962 1963 1964 1965 1966

EXHIBIT NO. 14

COST TO PRODUCE SLICED BACON IN ONE POUND VACUUM PACKAGES FROM A NO. 1 FRESH BELLY WEIGHING 10.3 LB.

COST OF PROCESSING BELLY

	Weight Lb.	Price per Lb.	Cost per Belly
Fresh Belly	10.30	49.00¢	$5.05
Less Rind	1.24	8.65	.11
Derinded Belly	9.06		$4.94
Gain in Cure	.82		
Cured Belly	9.88		
Curing Labour		0.59¢	$0.06
Other Curing Expenses		1.62	0.16
Smoking Labour		0.40	0.04
Other Smoking Expenses		0.99	0.10
			$5.30
Smoking Shrink	0.79		
Cured & Smoked Belly	9.09		$5.30
Chilling Shrink	0.18		
Piece Bacon	8.91 lb.	59.48¢	$5.30

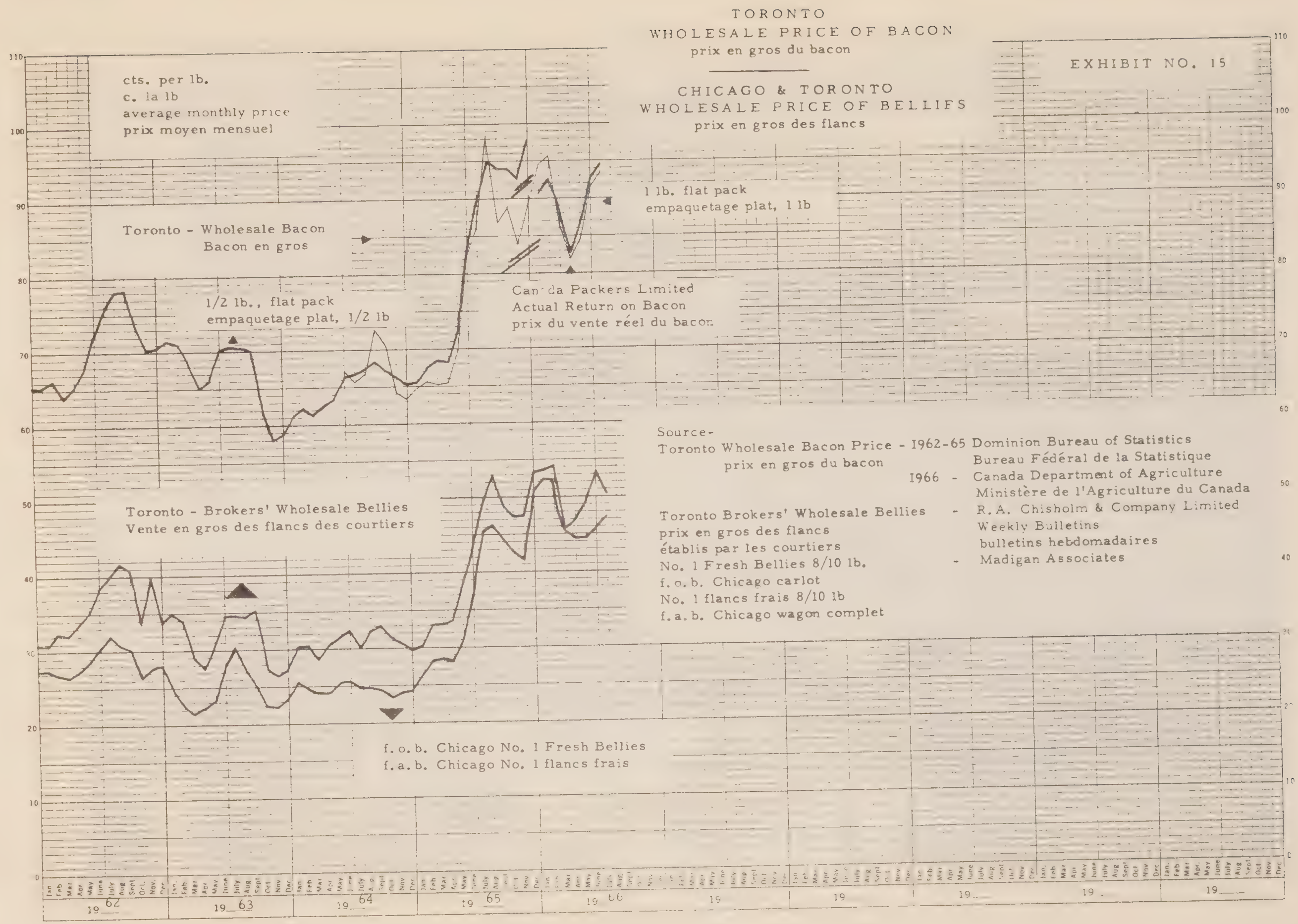
COST OF PRODUCING SLICED BACON

	Weight Lb.	Price per Lb.	Cost per Belly
Piece Bacon	8.91	59.48¢	$5.30
Labour for Slicing			0.29
Packages			0.44
Materials			0.01
Expense for Services - Maintenance, Supervision and Office			0.45
Advertising			0.07
Fixed Charges			0.15
Selling & Delivery			0.13
			$6.84
Product Produced:			
Maple Leaf Bacon	6.24 lb.		
Devon Bacon	1.60 lb.		
Jubilee Bacon	0.62 lb.		
Bacon Ends & Trimmings	0.27 lb.		
	8.73 lb.		

COST PER LB. OF FINISHED PRODUCT

			¢/Lb. of Finished Product	Per Belly
Cost of Fresh Derinded Belly			56.5¢	$4.94
Expenses:	Labour	4.5¢		
	Other Expenses	8.3*		
	Packages	5.0		
	Advertising	0.8		
	Fixed Charges	1.7		
	Selling & Delivery	1.5	21.8¢	1.90
Total Cost:			78.3¢/lb.	$6.84

*Includes approx. 2¢/lb. labour content in services such as maintenance, steam, etc.


TORONTO
WHOLESALE PRICE OF BACON
prix en gros du bacon
CHICAGO & TORONTO
WHOLESALE PRICE OF BELLIFS
prix en gros des flancs
EXHIBIT NO. 15
cts. per lb.
c. la lb
average monthly price
prix moyen mensuel
Toronto - Wholesale Bacon
Bacon en gros
1/2 lb., flat pack
empaquetage plat, 1/2 lb
1 lb. flat pack
empaquetage plat, 1 lb
Can da Packers Limited
Actual Return on Bacon
prix du vente réel du bacon
Toronto - Brokers' Wholesale Bellies
Vente en gros des flancs des courtiers
f.o.b. Chicago No. 1 Fresh Bellies
f.a.b. Chicago No. 1 flancs frais
Source-
Toronto Wholesale Bacon Price - 1962-65 Dominion Bureau of Statistics
prix en gros du bacon Bureau Fédéral de la Statistique
1966 - Canada Department of Agriculture
Ministère de l'Agriculture du Canada
Toronto Brokers' Wholesale Bellies - R.A. Chisholm & Company Limited
prix en gros des flancs Weekly Bulletins
établis par les courtiers bulletins hebdomadaires
No. 1 Fresh Bellies 8/10 lb. - Madigan Associates
f.o.b. Chicago carlot
No. 1 flancs frais 8/10 lb
f.a.b. Chicago wagon complet
19 62
19 63
19 64
19 65
19 66

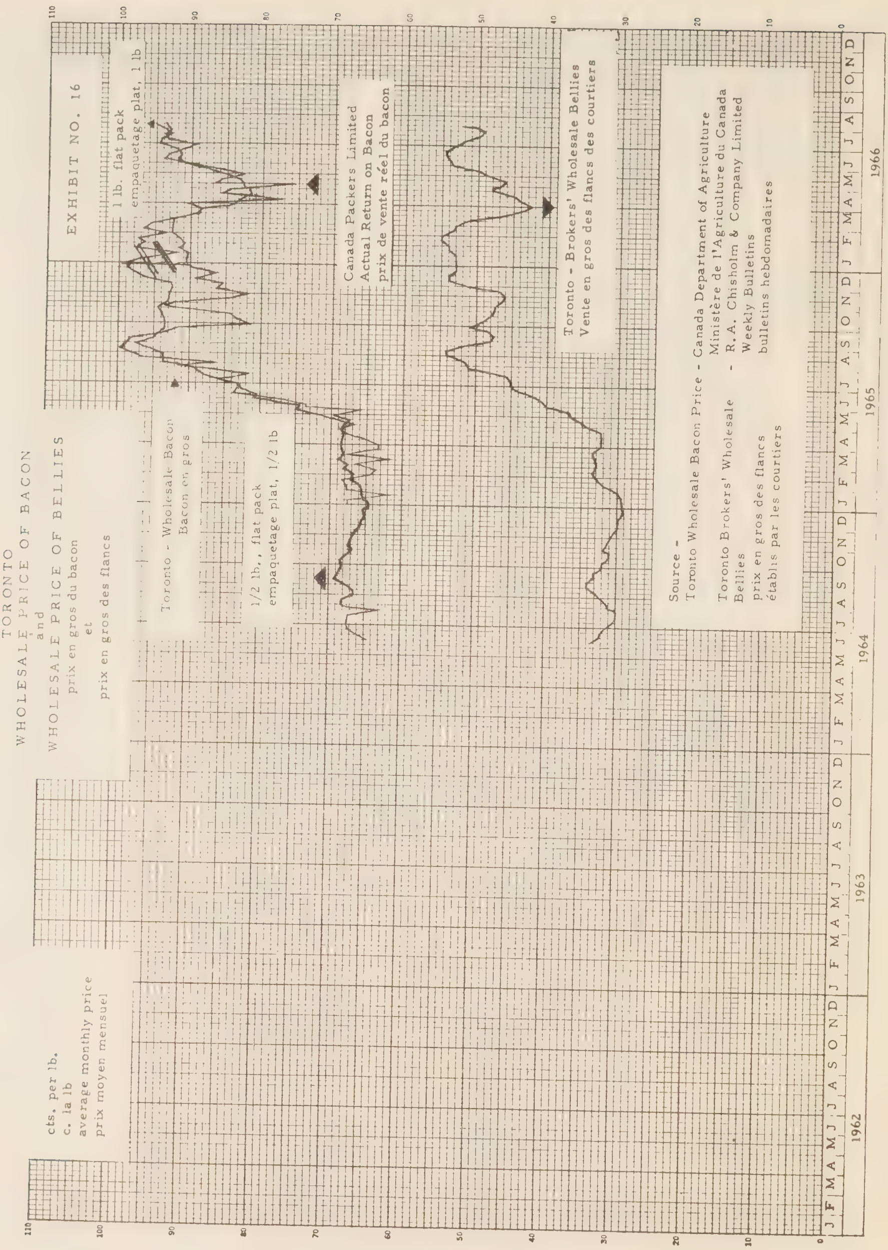


EXHIBIT NO. 16
TORONTO
WHOLESALE PRICE OF BACON
and
WHOLESALE PRICE OF BELLIES
prix en gros du bacon
et
prix en gros des flancs
cts. per lb.
c. la lb
average monthly price
prix moyen mensuel
1 lb. flat pack
empaquetage plat, 1 lb
Toronto - Wholesale Bacon
Bacon en gros
1/2 lb., flat pack
empaquetage plat, 1/2 lb
Canada Packers Limited
Actual Return on Bacon
prix de vente réel du bacon
Toronto - Brokers' Wholesale Bellies
Vente en gros des flancs des courtiers
Source -
Toronto Wholesale Bacon Price - Canada Department of Agriculture
Ministère de l'Agriculture du Canada
Toronto Brokers' Wholesale Bellies - R.A. Chisholm & Company Limited
Weekly Bulletins
bulletins hebdomadaires
prix en gros des flancs
établis par les courtiers
0
10
20
30
40
50
60
70
80
90
100
110
J F M A M J J A S O N D
1962
1963
1964
1965
1966

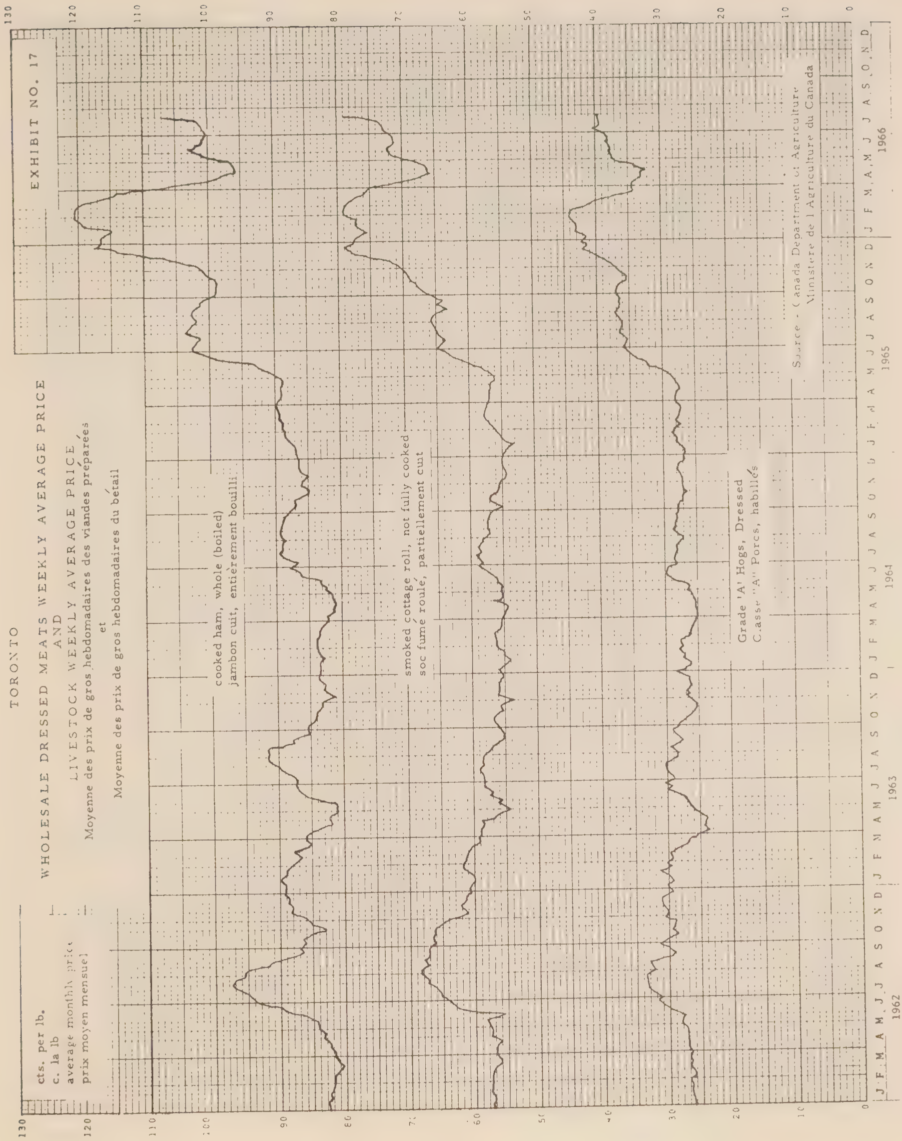
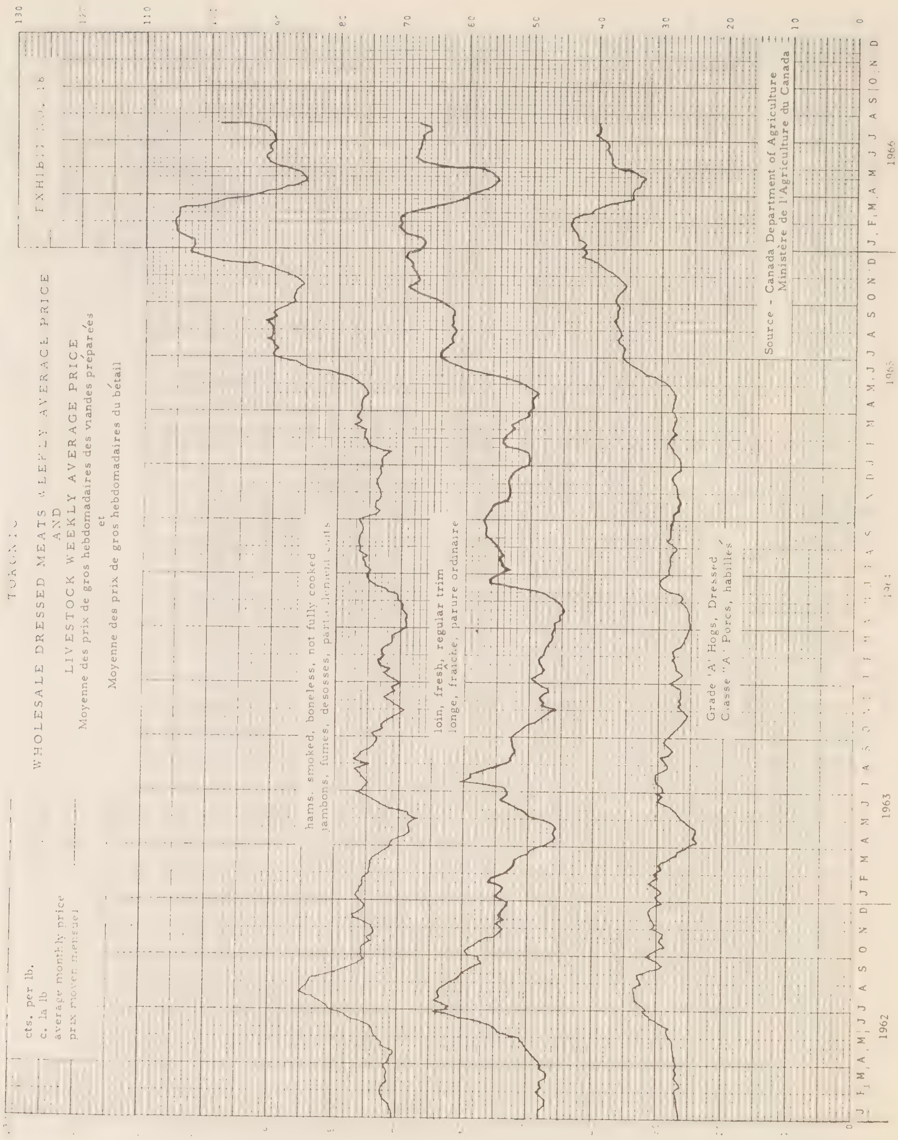
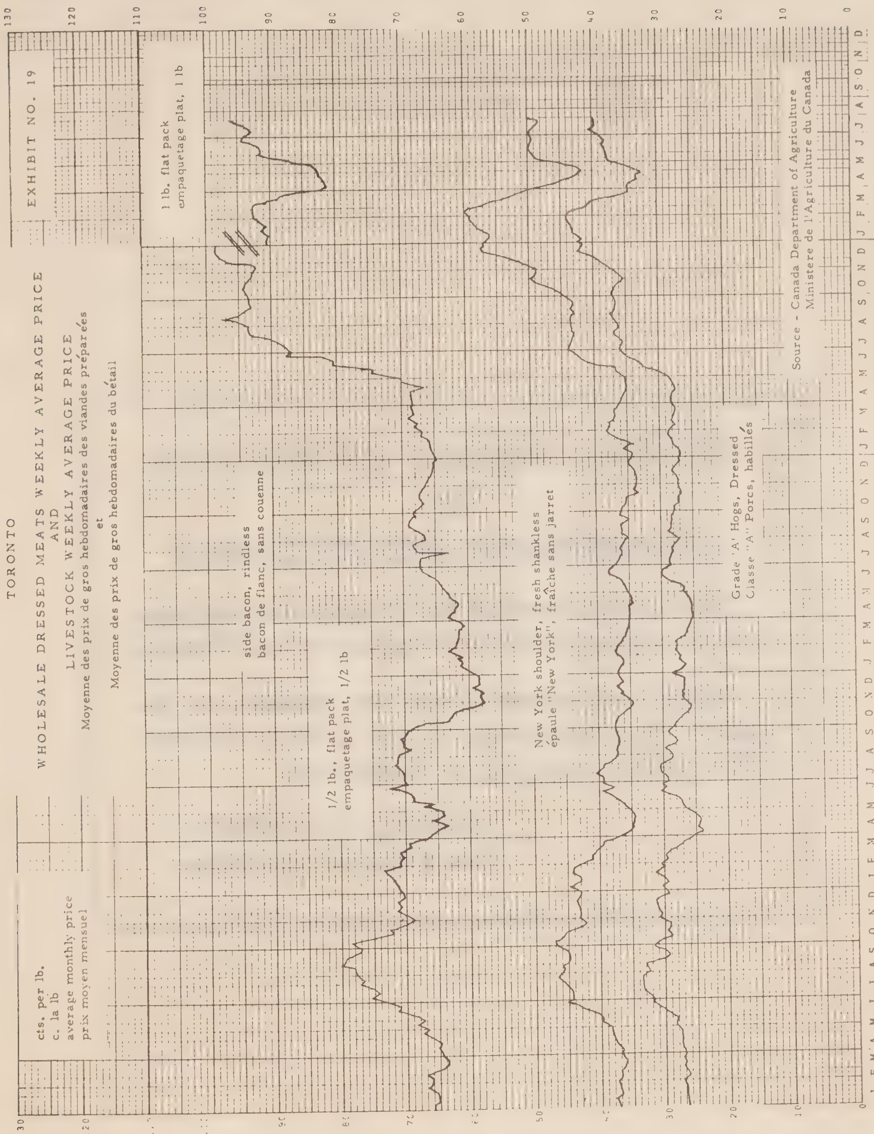


EXHIBIT NO. 17
TORONTO
WHOLESALE DRESSED MEATS WEEKLY AVERAGE PRICE
AND
LIVESTOCK WEEKLY AVERAGE PRICE
Moyenne des prix de gros hebdomadaires des viandes préparées
et
Moyenne des prix de gros hebdomadaires du bétail
cts. per lb.
c. la lb
average monthly price
prix moyen mensuel
cooked ham, whole (boiled)
jambon cuit, entièrement bouilli
smoked cottage roll, not fully cooked
soc fumé roulé, partiellement cuit
Grade 'A' Hogs, Dressed
Classe "A" Porcs, habillés
Source - Canada Department of Agriculture
Ministère de l'Agriculture du Canada
1962
1963
1964
1965
1966


WHOLESALE DRESSED MEATS WEEKLY AVERAGE PRICE
AND
LIVESTOCK WEEKLY AVERAGE PRICE
Moyenne des prix de gros hebdomadaires des viandes préparées
et
Moyenne des prix de gros hebdomadaires du bétail
cts. per lb.
c. la lb
average monthly price
prix moyen mensuel
hams, smoked, boneless, not fully cooked
loin, fresh, regular trim
longe, fraîche, parure ordinaire
Grade 'A' Hogs, Dressed
Classe 'A' Porcs, habillés
Source - Canada Department of Agriculture
Ministère de l'Agriculture du Canada
1962
1963
1966
130
110
70
60
50
30
20
10
0


TORONTO
WHOLESALE DRESSED MEATS WEEKLY AVERAGE PRICE
AND
LIVESTOCK WEEKLY AVERAGE PRICE
Moyenne des prix de gros hebdomadaires des viandes préparées
et
Moyenne des prix de gros hebdomadaires du bétail
EXHIBIT NO. 19
cts. per lb.
c. la lb
average monthly price
prix moyen mensuel
1 lb. flat pack
empaquetage plat, 1 lb
side bacon, rindless
bacon de flanc, sans couenne
1/2 lb., flat pack
empaquetage plat, 1/2 lb
New York shoulder, fresh shankless
épaule "New York", fraîche sans jarret
Grade 'A' Hogs, Dressed
Classe "A" Porcs, habillés
Source - Canada Department of Agriculture
Ministere de l'Agriculture du Canada
1962
1963
1964
1965
1966

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OF

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LÉON-J. RAYMOND,

The Clerk of the House.